Italian industry
Performing well in spite of scandals
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FINANCIAL TIMES

Europe's Business Newspaper

WEDNESDAY OCTOBER 20 1993

D8523A

Taiwan seeks new talks with BAe on aircraft deal

Taiwan Aerospace Corporation is seeking a fresh start to talks with British Aerospace on their troubled and drawn out efforts to set up a joint venture to manufacture regional jets. Page 14

Strikers halt Paris flights: Striking Air France workers brought chaos to the two main Paris airports, forcing flights to be cancelled for much of the afternoon. Cancellations were likely today for some flights, said Air France. Page 14

Haiti leader ignores deadline:

Lt Gen Raoul Cedras (left), Haiti's army commander, smoked and swapped jokes as he ignored demands to respect the United Nations-brokered plan allowing the country's exiled president to return, despite the reimposition of an international embargo. Six US and three Canadian navy ships were offshore to enforce the embargo, and a French frigate was sailing to join them. Britain is also to send a frigate. Page 6

ICL launches EC-based computer: An advanced computer system, based on technology developed in Europe and paid for by the European Community's main information technology research programme, is launched today by ICL. Page 14

Italy tightens control on secret services: Italy's intelligence services are to be reorganised under a single authority, controlled directly by the prime minister, after mounting evidence that elements of the country's intelligence community were linked to organised crime and at least partially responsible for terrorist acts. Page 2

Israeli political prisoner freed: Israel freed its longest-held Palestinian political prisoner, beginning the process of releasing up to 12,000 Palestinians from Israeli jails. Page 4

Vauxhall enters credit card market: Vauxhall Motors, a subsidiary of General Motors, has become the first UK car manufacturer to enter the credit card market, launching a UK version of the GM card available in the US. The card will offer customers a discount of up to £2,500 ($3,770) on a new Vauxhall vehicle. Page 8

Japan protests over nuclear dump: Tokyo protested to Moscow over Russian dumping of nuclear waste in the Sea of Japan at the weekend, which has caused wide anger in Japan, but Russia said the practice might continue. The US urged Russia to honour an international moratorium on dumping nuclear waste at sea. Page 5

End of an era for Lohnro: Tiny Rowland's reign as undisputed master of Lohnro ended when the international group's board agreed to the appointment of non-executives directors – nominated by Dieter Bock, the group's joint chief executive – for the first time in 20 years. Page 15

Gatt settlement at risk: Refusal by the US to open talks with the European Community on "clarifying" the Blair House farm trade agreement will make it hard to conclude the Uruguay Round world trade reform talks by their December 15 deadline, Mr René Steichen, EC agriculture commissioner, warned. Page 7; Poultry producers join revisionists, Page 24

Major's doubts on Ulster peace: The UK prime minister, John Major, discounted the possibility that the peace initiative between two Northern Irish nationalist leaders will lead to a breakthrough in attempts to secure peace in Northern Ireland. Major to hear new overture of peace from Ulster, Page 8

UK gilts: The December long gilt future reached a new contract high of 114.26 after the Bank of England announced there would be no gilt auction in November and dealers speculated that October's auction might be the last this year. Page 15; Lex, Page 14

Citicorp, the US's largest banking group, saw an 18 per cent rise in third-quarter after-tax earnings compared with the previous three months, and reported a better-than-expected decline in credit costs. Page 15

Kasparov keeps chess title: Garry Kasparov retained his world champion title in the London chess championship after drawing against Nigel Short in the 19th game. He has an unbeatable 12-7 score in the 24-game series, but needs a further half point to win the championship.

STOCK MARKET INDICES

FT-SE 100:	3,129.6	(-8.0)
Yield	3.75	
FT-SE Eurotrack 100	1,346.27	(-1.11)
FT-A All-Share	1,545.92	(-0.2%)
Nikkei	20,069.91	(-2.3)
New York: lunchtime		
Dow Jones Ind Ave	3,648.18	(+5.87)
S&P Composite	467.95	(-0.5)

US LUNCHTIME RATES

Federal Funds:	2 11/16%
3-mo Treas Bills: Yld	3.096%
Long Bond	105 3/32
Yield	5.834%

LONDON MONEY

3-mo Interbank	5¾	(5¾)
Liffe long gilt future:	Dec 114 7/32	(Dec 114½)

NORTH SEA OIL (Argus)

Brent 15-day (Dec)	$16.95	(16.92)

Gold

New York Comex (Dec)	$370.3	(369.6)
London	$367.0	(367.5)

STERLING

New York lunchtime:		
$	1.4915	
London:		
$	1.492	(1.498)
DM	2.4425	(2.4375)
FFr	8.6275	(8.6175)
SFr	2.155	(2.1475)
Y	159.75	(161.0)
£ Index	79.7	(79.9)

DOLLAR

New York lunchtime:		
DM	1.6383	
FFr	5.7905	
SFr	1.4455	
Y	107.1	
London:		
DM	1.637	(1.627)
FFr	5.7825	(5.7525)
SFr	1.444	(1.434)
Y	107.05	(107.45)
$ Index	65.6	(65.5)

Tokyo close Y 107.28

Austria	Sch30	Greece	Dr300	Lux	LFr65	Qatar	QR12.00		
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11		
Belgium	BFr65	Hungary	Ft185	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lw25.00	Iceland	IKr215	Neth	Fl 3.75	Slovak Rp	KSL45		
Cyprus	C£1.00	India	Rs40	Nigeria	Naira45	South Africa	R12.00		
Czech Rp	CZK45	Israel	Shk5.90	Norway	NKr16.00	Spain	Pta210		
Denmark	DKr15	Italy	L2700	Oman	OR1.50	Sweden	SKr15		
Egypt	E£4.50	Japan	Y500	Pakistan	Rs35	Switz	SFr3.20		
Finland	FM12	Jordan	JD1.50	Philippines	Pso45	Syria	S£50.00		
France	FFr9.00	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es215	Turkey	L6000	UAE	Dh11.00

Brussels targets Akzo in antitrust investigation

By Andrew Hill in Brussels and Ronald van de Krol in Amsterdam

THE EUROPEAN Commission believes Akzo, the Dutch chemicals group, has hindered an investigation into what could be a serious breach of EC competition rules.

The Commission inquiry is believed to focus on Akzo's growing dominance of the salt market, following the group's takeover of Dansk Salt of Denmark earlier this year. Akzo claims to be the world's biggest salt producer.

Brussels yesterday threatened Akzo with a daily penalty of Ecu1,000 ($1,170) because its antitrust investigators were refused access to the group's headquarters in Arnhem earlier this month. The threat was lifted after Akzo allowed the Commission to enter its offices.

Akzo claims that when the EC team first visited Arnhem, it was not authorised to carry out a search. The same team was allowed to enter the offices of Akzo Chemicals at other locations in the Netherlands.

"They hadn't done their homework," said one Akzo executive yesterday. "We co-operate with these studies because we have nothing to hide, but when they have the wrong documents we will not allow them in."

However, Brussels officials denied they needed specific authorisation. In a strongly worded statement, the Commission said it would "under no circumstances" tolerate attempts to escape such investigations, commonly known as "dawn raids".

Raids are carried out without warning when Brussels suspects an infringement of EC rules, particularly in cases involving alleged price-fixing, or abuse of a company's dominant position.

Neither Akzo nor the Commission would comment on the reason for the raids, which took place on October 6 and 7, but industry sources suggested that the inquiry followed complaints by Danish consumers and competitors in the salt market. Akzo, in addition to acquiring Dansk Salt, last month, took a majority stake in a Danish producer of food ingredients, which owns an Icelandic salt manufacturer.

Most of the 15m tonnes of salt produced by Akzo annually is intended for use in industrial electrolysis by the chemicals industry.

Flynn sets 5% jobless target for Community

Brussels package urges restraint on wages and cut in work hours

By David Goodhart in Brussels

THE EUROPEAN Commission is calling for wage restraint, a reduction in companies' welfare obligations, and tax incentives for training, as part of a radical plan to cut unemployment in the European Community from the current 10.4 per cent to 5 per cent by 2000.

The plan, spelt out yesterday by Mr Padraig Flynn, the EC social affairs commissioner, aims to combine "solidarity and competitiveness" and will form a key element of Mr Jacques Delors' white paper on growth, competitiveness and employment, due to be published next month.

Although Mr Flynn rejected wholesale labour market deregulation, he went further than before in detailing the changes required to traditional forms of labour protection and the sacrifices that will have to be made by the securely employed.

"I believe we should encourage increases in hourly wages below the rate of productivity growth, not in order to reduce wages, but in order to increase the number of jobs that can be made available," Mr Flynn told a conference on employment in Europe, organised by the Commission.

He also suggested employers' non-wage social security costs be less regressive to create more jobs for the less skilled and proposed switching some of those costs from employers to general taxation.

This attempt to reduce the price of labour will be greeted with suspicion by Europe's trade unions. However, Mr Flynn has couched the changes in terms that will appeal to the left: "Europe needs a new solidarity – between those with work and those without, and between those who earn their income from wages and from investments."

He also urged a progressive reduction in average hours of work per employee and for "minimising the financial incentives for longer hours among the better paid". Tinkering with the old system would no longer suffice and "reregulation" was required to take account of labour market changes, such as the increase in part-time and temporary work. He proposed, for example, the restructuring of government income support schemes to be combined with income from work.

"Our labour markets suffer from a series of discontinuities and distortions. They have grown up over the years, with template overlaying template, in taxation, in social protection, in regulation," he said.

But the answer, he concluded, was not to "simplistically abolish regulation". Otherwise the whole burden of change would be borne by the weakest and employee motivation would suffer.

Mrs Miet Smets, the Belgian labour minister, said the EC should not be made a scapegoat for unemployment and claimed that without its efforts the position would be worse. She proposed an EC-wide energy tax to promote employment and more career breaks to create jobs.

In the UK, Lord Henley, parliamentary undersecretary of state, said declining competitiveness was at the root of Europe's jobs problem. Social protection would not be abandoned but greater flexibility was needed, he added.

Reuter

Benazir Bhutto, who was sworn in as Pakistani prime minister yesterday, confers with former caretaker prime minister Balkh Sher Mazari

Bhutto reform pledge, Page 4; Editorial Comment, Page 13

Major hints at tax increases

By Philip Stephens and Peter Marsh in London

MR JOHN MAJOR, the UK prime minister, yesterday shrugged off concern that the economic recovery in Britain may be faltering and reinforced expectations at Westminster of higher taxes in next month's Budget.

Amid angry exchanges in the House of Commons with Mr John Smith, the opposition Labour party leader, Mr Major also hinted that the Treasury will seek to raise part of the additional revenue it needs by closing so-called tax loopholes.

Mr Major's upbeat assessment that the economic recovery will be sustained followed a warning to the cabinet from Mr Kenneth Clarke, the chancellor of the exchequer, that the government's £50bn ($75bn) borrowing requirement must be reduced.

But fears that recession elsewhere in Europe and weakening consumer confidence could abort the upturn prompted renewed warnings from prominent Conservative backbench MPs about the risks of large tax increases.

While a majority of Tory MPs appear resigned to an overall rise in tax of £2bn or £3bn, Mr Clarke was told at an 80-strong meeting last night of the party's backbench finance committee to rule out higher income taxes.

Mr John Townend, the chairman of the committee, said afterwards the general view was that Mr Clarke should do nothing to prejudice the economic recovery.

That caution was reinforced by a recommendation from the Treasury's panel of outside economic advisers that Mr Clarke should opt for only a "modest" tightening of fiscal policy next year. The advisers said this should be accompanied by an early cut in interest rates and by a medium-term package of spending and tax measures to reduce borrowing.

After an hour-long cabinet discussion of the economic outlook,

Continued on Page 14
Lex, Page 14

Bundesbank warns of threat from growth in derivatives

By David Waller in Frankfurt

THE BUNDESBANK today warns that the growth of derivatives markets could endanger the stability of the world financial system.

In its monthly report, the German central bank argues that the increase in the use of options, futures and other complex derivative instruments has led to an interlinking of the world's financial markets that makes them more "vulnerable to crisis".

The bank's concerns echo fears voiced last year by other leading regulators, including Mr Gerald Corrigan, then president of the New York Federal Reserve Board. However, recent reports, including one by the Bank of England, have adopted a more conciliatory tone.

Derivatives are financial instruments whose value is based on underlying assets, such as a currency, interest rate or share price. The Bundesbank calculates such transactions for German banks alone totalled DM6,116bn ($3,775.30) in mid-1993, which is the equivalent of 90 per cent of the balance sheets of the entire German banking sector.

The notional amount of futures contracts traded on the world's exchanges every year has reached $140,000bn, while the notional outstanding amount of swaps (contracts entered directly between banks) is about $4,500bn.

In today's report the Bundesbank recognises the positive

Continued on Page 14
Corrigan for Goldman, Page 15
Survey, Section III

Philip Morris profits cut by 25% in cigarette price war

By Richard Tomkins in New York

THE cigarette price war raging in the US took its toll on Philip Morris, the world's biggest cigarette manufacturer, yesterday by wiping 25 per cent of the company's third-quarter profits.

Net earnings were $971m compared with $1.29bn in the same quarter last year. The figures were worse than the market had feared and the share price fell $1¼ to $52⅞.

Philip Morris triggered the price war in April by cutting 20 per cent off the price of its premium brands – notably Marlboro, its top-selling product, but also Benson & Hedges, Merit, Parliament and Virginia Slims.

The company was responding to the inroads into its market share being made by low-price cigarettes, taken to be a further sign of the trend for consumers to switch to cheaper products.

The price cuts produced a fall of 16 per cent in Philip Morris's US tobacco revenues in the third quarter, causing a 53 per cent slump in the division's operating profits to $615m.

But the company took consolation from a 1.7 percentage point increase in its share of the US cigarette market to 25.7 per cent.

Most of the rest of the group performed well. The international tobacco business showed a 15 per cent increase in operating profits to $678m, North American food increased operating profits by 10 per cent to $586m, and the Miller Brewing Company increased operating profits by 71 per cent to $94m.

International foods, however, saw a 12 per cent fall in operating profits to $243m because of adverse currency movements and exceptional gains from asset sales the previous year.

Group turnover for the quarter was up 1.4 per cent at $15.2bn, while net earnings per share were down 23 per cent at $1.11.

Mr Michael Miles, chairman and chief executive, said: "Our overall results indicate that our business strategies are proving effective in very difficult economic and competitive circumstances."

The pressure on US cigarette prices seems likely to last and analysts are gloomy about the prospects of a recovery from this part of the group's operations.

But Ms Leigh Ferst, of Prudential Securities, said: "If they can stop the decline in US cigarette profits, there is growth in the rest of the business."

CONTENTS

NEWS: EUROPE

Bonn urged to reform jobs market

By David Waller in Frankfurt

THE chief economist of Germany's second biggest bank has called for a removal of the obstacles burdening the German labour market.

Mr Klaus Friedrich, chief economist at Dresdner Bank, who was speaking in Frankfurt on Monday night, said the labour market in Germany was so encrusted with inflexibilities that it functioned as if it were not a market at all.

He dismissed the tendency of German companies to put workers on to "short-time" – whereby employees receive a government-subsidised wage even though they are no longer working – as "macro-economic nonsense".

He reserved the same judgment for any deal between unions and employers which provided job guarantees in return for low wage increases. The powerful IG Metall union has suggested a moratorium on jobs in return for moderate wage claims.

"The only thing that matters is to have healthily functioning companies," Mr Friedrich said. "That means better deployment of capital, workers and management."

Such views, while undoubtedly shared by many senior German executives, are rarely voiced by consensus-minded members of the German financial and industrial establishment. They hint at pressures for Germany's "social-market" economy to become less social and more market-oriented.

Mr Friedrich, whose forthright style reflects many years working as an economist in the US before returning to take up his position at the Dresdner Bank last year, praised the measures contained in economics minister Mr Günter Rexrodt's recently published paper on "Securing the Future of Germany's Economic Base", which calls for privatisation and increased labour market flexibility as a cure for Germany's economic woes.

"The Rexrodt paper has its head and its heart in the right place," said Mr Friedrich. "But the question is, does it have the muscle? Can it be implemented in practice?"

Mr Friedrich said it was obvious what had to be done in economic terms. The difficulties in implementing deregulation lay in the political arena, he said. Radical measures would be especially difficult to implement in 1994, an election year in Germany.

SPD support needed for coal compromise

By Quentin Peel in Bonn

LEADERS of Germany's ruling coalition yesterday agreed a compromise which would provide guaranteed finance for German coal production up to the year 2000, but not beyond.

The deal depends, however, on agreement with the opposition Social Democrats (SPD) on continued electricity production from nuclear power stations – in order to cross-subsidise expensive coal-fired power production with cheaper nuclear electricity.

The plan was immediately denounced by the SPD, which wants Germany to abandon nuclear energy, as "attempted blackmail" at the expense of coalminers.

Protesting miners blocked the main road to the parliament quarter in Bonn waving banners denouncing Mr Günter Rexrodt, the economics minister responsible for the energy industry, as a "job killer".

EC will boost aid to east Germany

By David Marsh and Stewart Dalby

THE European Community is likely at least to double its aid to east Germany next year from the current annual figure of Ecu1bn (£770m) to try to narrow the region's economic gap with the rest of the EC.

Mr Bruce Millan, commissioner for regional policy, said in London yesterday that east Germany was due to receive a "very considerable" increase in structural fund payments next year, but did not give a figure.

The payments would rise as eastern Germany was brought fully into the mechanism for channelling money to regions with gross domestic product per head of less than 75 per cent of the EC average.

In parts of east Germany, the figure was only 30-40 per cent, Mr Millan said. "The scale of problems is unbelievable."

His comments reflect a desire by the Commission to show that the EC is taking east Germany's structural problems seriously.

Anti-EC feeling in Germany seems partly to reflect the belief that the Community is leaving west Germany to shoulder the burden alone, a view put last month by Mr Jürgen Sarrazin, chief executive of Dresdner Bank.

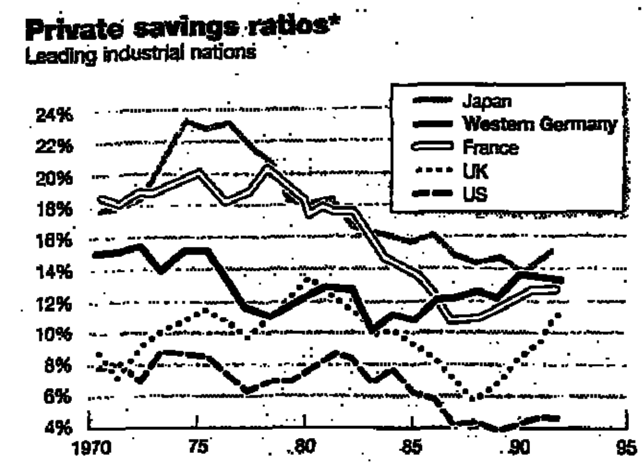
Separately, Mr Millan held out the hope of EC cash for British local authorities seeking funds for tourism and urban regeneration projects in southern England.

He said criteria on structural funding for areas in industrial decline had been widened to include those suffering from problems in non-traditional industries.

In a map submitted by the UK government, London and south coast towns like Brighton are included for the first time among applicants for structural aid to Britain which could amount to £1bn a year.

These southern areas often have urban problems and fading tourism industries.

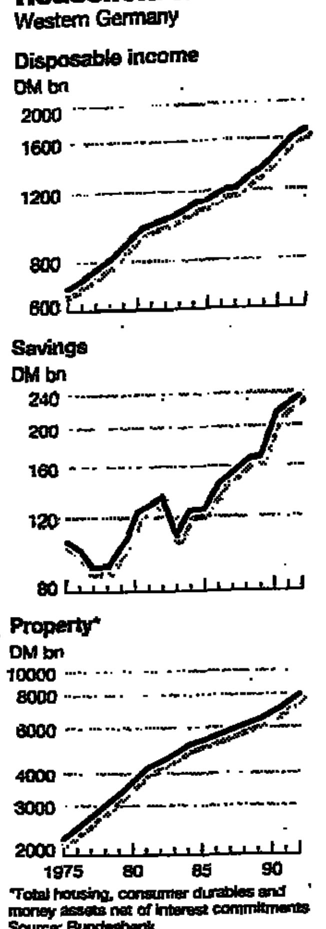
Private savings ratios*
Leading industrial nations



Source: Bundesbank

*Net savings, including houses and apartments in % of disposable income

Household income
Western Germany



*Total housing, consumer durables and money assets net of interest commitments
Source: Bundesbank

Ownership of consumer durables

% of households

	Western Germany		Eastern Germany
	1962	1993	1993
Car	27	73	64
Telephone	14	91	41
Television	37	95	96
Camera	42	80	73
Refrigerator	52	74	86
Freezer	3	53	55
Fridge/freezer	-	27	13
Dishwasher	0	38	3
Washing machine	34	88	90

Source: Bundesbank

Germans ensure even the bad times are good

By Christopher Parkes in Frankfurt

THE state may be going broke, industry may be flat on its back, but the west German citizen is still doing very nicely, thank you (see charts above).

The average family has financial reserves worth some DM110,000 (£44,700) and has no debt troubles, according to a Bundesbank study of post-war household wealth in Germany, published today in its October monthly report.

Including houses, other property and consumer durables, net personal assets in the region totalled well over DM8,000bn at the end of last year. This national nest-egg has grown more than 50 per cent faster than disposable incomes in the past 20 years, and in the meantime real per capita growth in economic output has exceeded the European Community average by a third.

The implied message in this brief history of good times past – published as the national debate on the future of Germany's economic and social system comes to a head – is that the population can tolerate belt-tightening by government and industry without too much grief.

More explicit is a warning to east Germans that getting rich requires hard work. Wealth creation in the former GDR has advanced relatively quickly, the report says. But "further progress along this road cannot be expected from west German transfers ... it will depend far more on increased production and incomes."

Three years after unification, and thanks largely to handouts from Bonn totalling around DM180bn this year alone, almost two-thirds of households in the east already have at least one car, compared with 73 per cent in the west; the place is saturated with television sets, and 90 per cent of homes have a washing machine, the report says.

Since unification, and despite the shopping extravaganza which followed, private financial reserves in the former communist command economy have grown a third to an average DM30,000 per household.

Disposable incomes have increased a real 17 per cent, although they are still only 55 per cent of western levels. As the growth in their private capital base demonstrates, despite their relative poverty, easterners share that great German virtue – thrift – with westerners.

They save around 13 per cent of their disposable income, compared with 14 per cent in the west, and they keep almost 80 per cent of their funds in banks and building societies.

Westerners, on the other hand, spread their piles more widely. Around 30 per cent of their funds are locked up in pensions and life insurance schemes.

A further quarter is invested in securities, but since caution is the watchword, most of that is in bonds or similar instruments.

Only a token DM128bn – or 4 per cent of total private capital assets – is at the mercy of the the stock market.

According to Bundesbank estimates, annual dividends and interest earnings of DM173bn, account for 8.5 per cent of total west German private incomes.

Bricks and mortar have gained popularity only slowly. The rate of home ownership in west Germany has increased from 38 per cent to around 50 per cent in the past 30 years, but still lags behind other EC countries and the US. Although home loans account for three-quarters of total private debt of DM1,215bn in the west, high land and construction prices discourage would-be buyers, the report says.

NEWS IN BRIEF

Rome tightens up on intelligence services

By Robert Graham in Rome

ITALY'S intelligence services are to be reorganised under a single authority, controlled directly by the prime minister.

This was the outcome of a special meeting called on Monday evening by President Oscar Luigi Scalfaro of the senior ministers, defence chiefs and heads of the intelligence services. The meeting had been prompted by mounting evidence that elements of Italy's intelligence community were linked to organised crime and had been behind acts of terrorism.

Legislation outlining the new authority is expected to be submitted to parliament in the form of a decree by the end of the month. The two principal existing agencies – Sisde (domestic intelligence) and Sismi (military intelligence) – will disappear. They will be replaced by two revamped organisations whose responsibilities will be split between domestic and foreign intelligence activities.

Hungary targets 1956 crimes

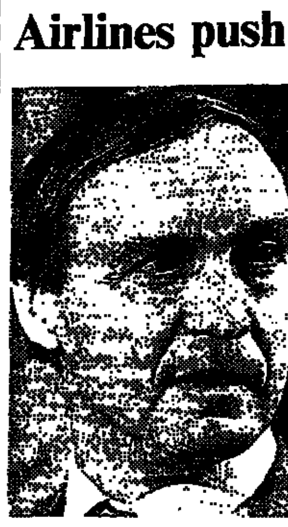
Hungary, after several fruitless attempts, is to endeavour again to bring officials of the former communist regime to justice after parliament yesterday opened the way for war crimes trials, writes Nicholas Denton in Budapest. Prosecutions will centre on torture, mass shootings and other "inhuman" means used to suppress the 1956 revolution. That uprising against Soviet occupation and communist rule left 2,500 dead and many more injured. Few cases are likely to go before the courts and legal experts expect sentences to be light, even suspended. Some veterans of 1956 even argue for an amnesty, after justice is done.

Italy's 10-day protest begins

A nationwide strike by Italian transport workers yesterday heralded the start of 10 days of serious labour protests by the country's air, maritime and rail workers, writes Robert Graham in Rome. The protests will culminate in a four-hour general strike scheduled for October 28.

Like the strike called by the three main trade union confederations, the protests in the transport sector are directed against the government's 1994 austerity budget and the growing threat of unemployment. Transport workers are also angry about planned new regulations in the sector and cuts in investment. Union officials said port workers would strike today and tomorrow.

Airlines push EC on services



Trevor Humphries

Van Miert: met airline chiefs

Five leading European airlines yesterday pressed the European Commission to ban ground-handling monopolies at airports throughout the EC, writes Paul Betts, Aerospace Correspondent. Senior directors of British Airways, Air France, Lufthansa of Germany, KLM Royal Dutch Airlines and Scandinavian Airlines System told Mr Karel van Miert, the EC competition commissioner, and other officials in Brussels that ground-handling charges at monopoly airports were almost a third higher than those at airports where airlines are free to provide their own services or choose other suppliers. They have already filed formal complaints with the EC.

Spanish general assassinated

Two gunmen killed a Spanish air force general and seriously wounded his chauffeur as they drove through a central Madrid shopping district yesterday, police said, AP reports from Madrid. The gunmen, believed to belong to the Basque separatist group Eta, fled the scene in a car they later blew up. Police identified the murdered officer as General Dionisio Herrero Albinana, 63, who was on the staff of the air force's health department.

Danish unions alter course

Tradition and values in the Danish trade union movement are undergoing radical change, according to a membership study published by the Confederation of Danish Trade Unions, writes Hilary Barnes in Copenhagen. Some 77 per cent of trade unionists attach more importance to having an interesting job and a good working environment (77 per cent) than to high wages (33 per cent). Strikes and labour conflict are supported by only 8 per cent of the 3,390 members in the survey. The vast majority believed labour problems should be resolved through negotiation.

Judge overrules decision to shelve inquiry into PDS finances

Probe of Italian party to go ahead

By Robert Graham in Rome

THE Milan judiciary has decided to proceed with investigations into alleged illicit financing of the former communist Party of the Democratic Left (PDS).

The decisions follows a serious split in the ranks of Milan magistrates over whether or not to shelve the investigations that involve Mr Marcello Stefanini, the PDS treasurer, as well a former party official, Mr Primo Greganti.

The Milan attorney-general last week decided to discontinue the inquiries. He also took the unusual step of removing from the team of magistrates the one person who had dissented and who was responsible for implicating Mr Stefanini, a senator, in August.

However, his decision on the case had to be approved by a judge of first instance who yesterday ruled that further inquiries were necessary before the case could be closed.

This is the first time during the country's corruption scandals that genuine doubt has been sown about the involvement of top officials receiving and organising illicit contributions. The PDS has consistently denied the party was involved in illegal practices, and the most it has conceded is failing to declare to the tax authorities the full amount received on a property transaction. Where individuals have been accused of corruption, the party has always said this was an individual matter.

However, at least three businessmen have claimed they paid first Communist party and then PDS officials on behalf of the party. The PDS-controlled co-operative movement is also under investigation for helping to provide under-the-counter financing.

Mr Alberto Predieri, liquidator of the Efim state industrial holding, has requested Milan magistrates to investigate 41 executives linked to companies within Efim, writes Robert Graham in Rome. The move was revealed by Mr Predieri yesterday in evidence to a parliamentary committee. He gave few details, saying the matters to be investigated related to the companies' balance sheets.

Efim was placed in voluntary liquidation in July 1992 with outstanding debts of L18,000bn ($11bn). The rescue operation has already cost the Treasury some L10,000bn and the eventual cost is likely to be close to L18,000bn.

Queen jeered as Cypriots recall two bitter episodes

By Michael Holman

POLICE in Nicosia yesterday sprayed tear-gas at schoolchildren demonstrating against a controversial visit to Cyprus by Queen Elizabeth.

The Queen's visit, planned as part of the Commonwealth Conference which opens tomorrow has revived bitter memories of two critical periods in the island's history – the struggle for independence from Britain and the Turkish invasion of the island in 1974, which has left it divided.

The Queen, in Nicosia to receive the key of the city, was greeted by jeering Greek Cypriots who yelled: "We don't want you here." Earlier, police had used tear gas to disperse dozens of schoolchildren to clear the road for the Queen.

At the ceremony, the mayor of Nicosia, Mr Lellos Demetriades, told the Queen: "The city has the unenviable title of the last divided capital in Europe." Outside, angry demonstrators recalled the island's guerrilla war for independence from Britain in the 1950s when EOKA guerrillas fought for unity between Cyprus and Greece.

In 1955, Britain hanged nine men accused of guerrilla activity. The Queen had turned down pleas for mercy.

Many Cypriots also resent Britain's role during the events of 1974, when Greek Cypriots still hoping for union with Greece, staged a short-lived coup against the then-president Makarios.

Turkey, which ruled Cyprus for more than 300 years, responded by invading the north of the island, saying it had to protect the Turkish Cypriot minority.

● As Greek-Cypriots jeered the Queen during her visit to Nicosia she was able to chat amicably with peacekeepers from her country's former Falklands conflict adversary Argentina, Reuter reports from Nicosia. The Argentinians later stood firmly to attention as a British military band played "God save the Queen".

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Hungry Russia watches Georgia carve itself up

John Lloyd and Steve LeVine report from the threatened capital

A COUP against the elected president brought him to power; now that president's forces threaten to deprive him of office. Mr Eduard Shevardnadze has had a traumatising 18 months as Georgia's head of state. Today he sits, amid the ruin of all his hopes, in the building from which Mr Zviad Gamsakhurdia was forced in January 1992.

As the "Zviadists" advance toward Tbilisi, Mr Shevardnadze turns in desperation to Russia, begging to be let in to the Confederation of Independent States, in which he saw "no future" last year. Russia is reasserting its hegemony over many of the former Soviet republics, and especially his; a Russia which "is putting its empire together again", in the words of veteran commentator Mr Levan Khaindrava.

Mr Shevardnadze told Georgian politicians and intellectuals on Monday: "We will not be able to live if we cannot settle matters with Russia."

He encouraged the view that he was Georgia's last hope after a coalition of paramilitary and political forces violently ousted Mr Gamsakhurdia. Now, after becoming one of the most famous statesmen of the late 20th century as Soviet foreign minister, he has little to show for his return to the state where he was once Communist party leader.

RUSSIA'S defence minister, Mr Pavel Grachev, said yesterday his country could not help in Georgia with military action, as this could be interpreted as interfering in the internal affairs of another country, Reuter reports. But Mr Grachev, on a visit to Finland, said Russian, Azerbaijani, Armenian and Georgian troops could go to Tbilisi at the request of Mr Eduard Shevardnadze, the Georgian leader, to secure supplies of food and medicine into the country.

Rebels backing ex-president Zviad Gamsakhurdia have made strong gains in western Georgia in recent days, threatening supplies to the capital.

"Georgia is an independent state with which Russia does not have any agreement on mutual military co-operation. Georgia is not a CIS country and is not thus part of collective security arrangements," Mr Grachev said. His comments followed a late-night appeal for military help by Mr Shevardnadze.

Defending, in an interview last week, his decision to take Georgia into the CIS, he said, "The CIS is not a powerful union, so we don't have to sacrifice much of our sovereignty." Yet the very prostration of his country calls into question how much of that "sovereignty" is left.

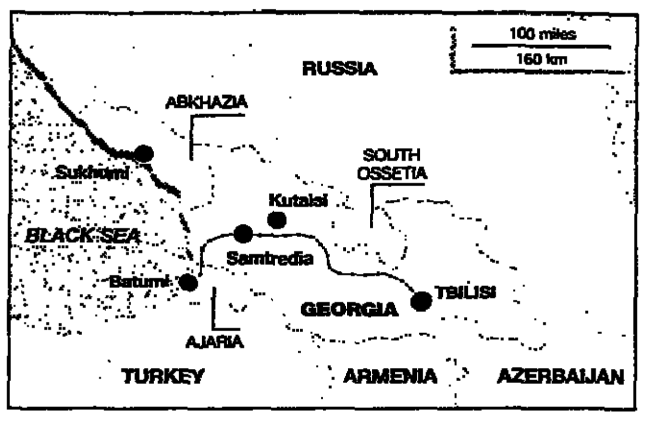
The economy is ruined. Mr Gia Nodia, who runs Tbilisi's only independent think-tank, says a basic food basket for a month costs $20 (£13.20); the official average salary, paid in the wildly inflating coupon, is $2 a month. Bread lines for loaves priced at the equivalent of one fifth of a cent are massive, while wheat is sold off on the black market to Armenian and other traders. Since Mr Gamsakhurdia's forces took the junction town of Samtredia last Sunday, food in the port of Batumi is denied the capital, and supplies are down to a week or two.

Unemployment is at least 50 per cent, and the streets are crowded with lounging men. In the second city of Kutaisi, now directly threatened by Mr Gamsakhurdia, the big truck plant "barely works", according to the mayor, who adds that "most enterprises work at around 30 per cent capacity at most. Anyway, who needs what they produce?"

The republic of 5.5m people is dismembered. The fall of the resort town of Sukhumi at the end of September ended the Georgian military presence in the province of Abkhazia, which has been agitating for independence for two years and has now declared itself an independent state. It is now another land which is undergoing "ethnic cleansing": Georgians, once nearly half the population, are down to a few thousand and they are trying to flee.

Refugees in Chubery, a village in the Svanetian mountains next to Abkhazia, speak of hideous atrocities. Mr Levan Amliani, who fled Sukhumi three weeks ago, said he saw the bodies of women with breasts cut off; men hanged and nailed to crosses; and – a recurring, nightmarish tale – men and women with throats cut and tongue pulled through the gash to make an "Abkhazian necktie".

The other two autonomous regions of Georgia are also wholly or partly lost to Tbilisi. South Ossetia, scene of murderous fighting three years ago, is now de facto occupied by Russian troops – and is peaceful. Ajaria, the southern part-Moslem region, is peaceful but prefers Moscow to Tbilisi.



Mr Shevardnadze has no army. Thus, he has had to rely increasingly on the showy, violent, semi-criminal band known as the Mekhedrioni, who owe their loyalty (and their pay) to Mr Jaba Josseliani, now effectively second man after the president. Imprisoned by Mr Gamsakhurdia, he has been more or less loyal to Mr Shevardnadze and his bandit-like force has provided the spine of the state's military arm.

Though he came in with a string of western friends, Mr Shevardnadze has had nothing from the west but concerned words. "He addressed many love letters to them," says Mr Khaindrava in his waspish way, "but it was in the end platonic." Even Mr Tedo Japaridze, his national security adviser, concedes that "he raised too many hopes about the west".

Mr Japaridze claims that, in a meeting with President Bill Clinton, he was told that Georgia must reconcile itself to being in the Russian sphere of influence. He also says that President Boris Yeltsin told Mr Clinton at the Group of Seven meeting in Tokyo that if Russia were to leave the Caucasus, "they would murder each other". It is widely believed that Russians have been helping the murdering, by providing arms to the Abkhazian separatists and at least allowing in guerrilla forces from the Russian northern Caucasus. Mr Shevardnaze believes that Mr Yeltsin did not sanction this and that he represents the "progressive Russia" with which Georgia can live; others believe all the Russians are the same, and they want Georgia back.

No-one pushes these points harder than Mr Gamsakhurdia. Interviewed at the weekend in his headquarters city of Zugdidi, the former president, soft-spoken and only occasionally portraying the immense paranoia of former years, inveighed against the "criminal bands" of Mr Shevardnadze and promised to rid Georgia of them. His prime minister in exile, Mr Pessarion Gugushvili, said: "Everything we said about Shevardnadze has proven to be true. He has ruined his country and is delivering it to the Russians."

Georgia was as pleasant a place as could be found in the Soviet Union's last years, its towns relatively gracious, its climate warm, its people notoriously hospitable. Now it is grim, squalid, nervy, riven with conflict and patrolled by unpredictable thugs with automatics who answer to unknown authorites or none. Russia may in the end save the republic. Georgia's wild spree of independence is coming to an end.

Russian parties warned to co-operate

By Leyla Boulton in Moscow

A SENIOR official in President Boris Yeltsin's administration yesterday warned Russia's pro-reform parties they should co-operate over the December 12 elections or be denounced as being unwilling to do so "for the good of Russia".

Mr Vyacheslav Volkov, deputy head of the president's administration, said Russia's Choice, set up at the weekend by supporters of Mr Yeltsin and a number of anti-Communist parties, would convene leaders of all similar groups two weeks before the elections. Politicians who rejected an agreement "not to get in each other's way and not shoot arrows at each other" would be publicly denounced.

This ultimatum will further fuel discontent about heavy-handedness and bullying from the president's supporters.

Mr Konstantin Borovoi, head of the liberal Economic Freedom party, who has refused to join Russia's Choice, even though he shares its economic platform, rejected "co-operation proposed in the form of blackmail... if they continue this way we will boycott the elections."

Sarajevo flame dies under Serb rain of death

By Laura Silber in Sarajevo

FIERCE artillery bombardments and the stench of explosives has reminded the inhabitants of Sarajevo that in spite of a two-month lull and the push for a settlement in Geneva, Serb besiegers can wreak havoc on their lives at any time.

Using 152mm artillery, the biggest in their arsenal, Serb fighters have again been pounding the city from their positions on the heights.

This latest onslaught mocks any attempt to maintain a semblance of normal life in the valley below. Efforts by the UN to clear the rubble-strewn streets, restore power, water and telephone lines or repair the tram lines in the devastated city appear utterly absurd, given the Serbs' ability to strike at any moment.

The UN's "clean city" operation has so far done little more than provide an extra role for its 5,000 soldiers encamped there.

Bombarding the city with artillery and mortars as well as targeting civilian areas with anti-aircraft guns, Serb chieftains, bolstered by their Croat counterparts and western indifference, are killing whatever spirit remains in the Bosnian capital.

Despite brave efforts to maintain a core of tolerance, many people fear they have lost the battle to preserve the centuries-old mixed ethnic identity of Sarajevo.

As winter descends from the encircling mountains, people are desperate to abandon the city they all vowed to save.

Exhausted, "Sarajlija", the Serbo-Croat word for the city's inhabitants, no longer debate the future shape of their country. While they dismiss as "unfair" the Geneva plan to split Bosnia into three, few hold out hope of a better agreement. They criticise their government sharply for failing either to obtain weapons or surrender.

An overwhelming majority of citizens simply want the guns to fall silent. They spend their time devising ways to survive until somehow they can get out of Sarajevo.

As they enter their second winter of war, the fear of bombardment is mingled with a dread of cold and disease.

In the anxiety to tap into the city's barely functioning natural gas system, Sarajevo homes have become fire hazards, say UN officials. When Serb besiegers allow supplies through, city dwellers rig up a tangle of rubber garden hoses to channel in small amounts of natural gas.

Epidemics pose another threat. Local entrepreneurs have formed a company to exterminate the rats which infest the city. There is also a fear of a breakdown in law and order. Gangsters have been snatching UN vehicles.

While most people speak of an intense desire to leave instead of struggling through another winter, few have real hope of getting out. Even if the Moslem-led Bosnian government gives permission, Serb leaders have raised objections with the UN over "violations" of the airport agreement which only allows transport of humanitarian aid.

The spirit of Sarajevo still persists. Even after 18 months of war, vestiges of a cosmopolitan life have endured, distinguishing it from other cities in Bosnia under the control of Serb and Croat regimes.

Performing artists and writers have worked to maintain cultural life, organising art exhibits, plays, concerts, and fashion shows, including one with materials made entirely of reinforced window plastic provided by the UN refugee relief agency.

But this spirit of resistance is weak and no match for the Serbian guns. Even those most dedicated to its preservation say there is little chance of life in the city in the future. A combination of anger at their Serb adversaries and the incompetence of the west have weakened their will.

With their bombs, Serb leaders appear ready to stop at nothing until the Moslems endorse a peace plan which formally puts an end to their Bosnian state.

New premier faces economic difficulties but seeks opposition co-operation in efforts to form stable government

Bhutto promises to continue reforms

By Farhan Bokhari in Islamabad

MS BENAZIR Bhutto was sworn in as Pakistan's 16th prime minister yesterday, marking a political comeback almost three years after her previous government's dismissal.

Ms Bhutto, 40, polled 121 votes from her Pakistan People's party (PPP) and its allies, against 72 for Mr Nawaz Sharif, leader of the Pakistan Moslem League (PML), in a parliamentary vote.

At least eight members abstained during voting in the 217-seat National Assembly, the lower house of parliament. These included six members belonging to Islamic parties which consider the rule by a woman to be against their religion.

Her victory was also strengthened by the first signs of PPP gains in the Punjab – Pakistan's largest and wealthiest province, which is crucial for the smooth functioning of the central government. The PPP's candidate in elections for the speaker of the provincial assembly polled 131 votes against the PML nominee's 107. That result, ahead of today's elections for the provincial government, finally confirmed Ms Bhutto's lead.

In her acceptance speech, Ms Bhutto sought the co-operation of the opposition in her efforts to form a stable government. She said Pakistan was under pressure on the nuclear issue, the spread of narcotics and terrorism, and faced economic difficulties. "Our government will be one of reforms. People want a change of system not a change of faces." In response, Mr Sharif promised to support actions which served the "national interest".

On the future of the economic reforms begun under Mr Moeen Qureshi, the interim prime minister, Ms Bhutto said: "We want to stimulate the economy, and if... steps have been taken which prevent that, we would review those steps." She did not give any further details.

Mr Qureshi said he was encouraged by the substantial majority Ms Bhutto appeared to have obtained.

Ms Bhutto's victory ended a year of intense political turmoil which began last November when the opposition began an anti-government campaign. That initiative was resisted by Mr Sharif through widespread arrests of PPP activists, showing virtually no room existed for a compromise between the two sides.

Mr Sharif's power was further curtailed when he turned against Mr Ghulam Ishaq Khan, the former president, in an effort to repeal presidential powers of dismissing prime ministers and dissolving elected assemblies.

Although Mr Sharif's dismissal in April was followed by his return a month later in a supreme court reversal of a presidential order, the government's restoration only intensified the political crisis. Both Mr Sharif and Mr Khan were forced out of office in July in a deal brokered by Gen Abdul Waheed, the army chief.

The final results of the October 6 elections have put Ms Bhutto back in power, but she is still faced with difficult odds. It is not clear how long her coalition will last, especially if Mr Sharif tries to break apart Ms Bhutto's allies.

It is also not clear that Ms Bhutto and Mr Sharif could co-operate in resolving issues such as the presidential powers for dismissal of governments, which were used against both of them.

Despite the existence of such concerns, senior PPP leaders are confident that there is no threat of any intervention by the army, which has ruled Pakistan for 24 years of its 46-year history.

Pakistan's newly-elected prime minister Benazir Bhutto accepts the congratulations of ex-premier Nawaz Sharif as they take their seats in the National Assembly Reuter

Kashmir shrine siege talks collapse

By Stefan Wagstyl in Srinagar and Shiraz Sidhva in New Delhi

VIOLENCE erupted yesterday on the streets of Srinagar, capital of the Indian state of Jammu and Kashmir, after talks on ending the siege of the city's holiest shrine collapsed.

At least 40 people were injured as security forces used teargas and batons to disperse hundreds of demonstrators marching in support of militants who have taken control of the shrine and are surrounded by troops.

Meanwhile, Pakistan has expelled one Indian diplomat and three staff at the Indian consulate in Karachi for "indulging in espionage and other activities incompatible with their official status".

The expulsions were in response to India's demand that four Pakistani diplomats leave New Delhi on Monday, after India had charged Pakistan with "direct" involvement in a conspiracy to damage the holy shrine in Srinagar.

Trading reopens after scandal

Indian brokers returned to the ring in Bombay and other bourses yesterday, ending week-long disruption after a Bombay court resolved the problem of scandal-linked shares seized by tax authorities, R C Murthy reports from Bombay.

Under an accord, thousands of shares worth \$80m (£52.9m) will be released.

If holders can show the shares were bought legitimately, an ownership certificate will be issued. Other shares will be confiscated.

US pulls out crack unit in Somalia

By George Graham in Washington

THE US is to withdraw its detachment of Army Rangers from Somalia, reflecting its shift away from a policy of aggressively pursuing General Mohammed Farah Aideed, the Somali clan leader.

President Bill Clinton said the move did not mean the US was abandoning the search for Gen Aideed, but that the Rangers were no longer needed in Mogadishu now that a force of 3,600 Marines was positioned offshore.

"It means that right now we are engaging in a political process to see how we can resolve our mission in Somalia and to do all the things the United Nations was ordered to do," Mr Clinton said.

US officials denied that the withdrawal of the Rangers, whose principal role during their stay in Somalia has been to carry out raids aimed at capturing Gen Aideed or his lieutenants, was part of a deal struck with the Somali leader to obtain the release last week of a US helicopter pilot shot down and held prisoner by his forces.

Since the US abandoned its policy of aggressively chasing the general, the US combat forces in Somalia have been largely confined to barracks.

The White House described the removal of the 600 Rangers, who are trained in special operations such as "snatch" missions, as a "rotation of forces."

Mr Peter Tarnoff, the under-secretary for policy at the State Department, told members of Congress that the primary mission of the Marine amphibious forces deployed off the coast of Mogadishu was to protect US troops in Somalia.

Israel starts to free Palestinians

By Julian Ozanne in Jerusalem

ISRAEL, in a gesture of goodwill, freed its longest-held Palestinian political prisoner yesterday, beginning the process of releasing thousands of Palestinians serving time in Israeli jails.

The release of up to 12,000 Palestinian prisoners is considered by Palestinian peace negotiators to be the single most important confidence-building measure between the two sides, who resume talks in the Egyptian Red Sea resort of Taba today. Mr Yitzhak Rabin, Israel's premier, has said the numbers, timing and conditions for releasing prisoners must be negotiated properly in the Taba talks.

Israeli officials said the release of Mr Salim Zrei, a commander in the Fatah faction of the Palestine Liberation Organisation held by Israel for 23 years, was intended as a reward to the PLO for renouncing violence under the framework peace accord.

His release comes on the eve of the arrival in Israel of Mr Dennis Ross, US co-ordinator for Middle East peace talks, who is touring the region ahead of a visit early next month by Mr Warren Christopher, US secretary of state.

Palestinian officials have said Israeli negotiators have promised to free 4,500-6,000 prisoners in the coming weeks. Hundreds of prisoners being held on minor charges will be released in the first wave.

Israeli officials have rejected PLO demands to release activists of the Islamic fundamentalist Hamas movement, including Sheikh Ahmed Yassin, the Hamas spiritual leader. The PLO, anxious to show quick results, wants Hamas prisoners freed and the remaining deportees to return home, to undercut Hamas opposition to the peace agreement.

Mr Uri Savir, director-general of Israel's Foreign Ministry, indicated yesterday that this week's talks in Taba could see more significant releases in the context of mutual security guarantees. The Taba talks will also get down to more detailed negotiation about the size of the Jericho area from which Israeli troops will begin withdrawing by December 13.

The Palestinians want an area of 345 sq km, the old Jordanian district of Jericho, while Israel is offering only 27 sq km, the boundaries of the town. Much of the Palestinian negotiation focuses on access to the Dead Sea and a border crossing to Jordan, with inclusion of strategic roads, water sources and religious sites.

Keating pulls off Aborigine land rights deal

Compromise package satisfies most farmers, mining interests and Aborigines, writes Nikki Tait

PAUL Keating, the Australian prime minister, has not enjoyed too many political successes in recent months. But yesterday he was finally able to declare that the issue of Aborigine land rights, which has provoked a storm of controversy in the mining and farming sectors, was a big step closer to resolution.

A compromise package, which clears the way for legislation later this year, was carved out in a long cabinet meeting on Monday night. As the details became clearer during the day, cautious support from many of the interested parties – including the mining and farming lobbies – began to emerge.

All this was the result of some hairy, last-minute bargaining. On Monday afternoon, for example, Mr Keating told parliament that land which was held under pastoral leases could be subject to native title claims – a statement which reversed an earlier government commitment to farmers.

Yet by the time the cabinet meeting broke up in the small hours of Tuesday morning, this concession to the Aborigine contingent had been dropped.

Instead, Aboriginal representatives agreed to an alternative proposal – that they be allowed to convert their own pastoral leases into native title, thus giving them permanent security on such land.

For the past 16 months, it has been touch-and-go whether the government could broker a solution to a High Court decision which makes land rights legislation imperative. This ruling was handed down in June 1992, when the court determined that the Meriam people in the Torres Strait were holders of native title on about nine square kilometres of land. The judgment became known as the "Mabo" decision, after Eddie Mabo, leader of the Meriam people who had begun the court action a decade earlier.

The land involved in Mabo may have been modest, but the implications were huge. Australian law had always operated on the assumption that the land was unoccupied before European settlement – the principle of "terra nullius". The High Court, by contrast, ruled that native title claims could be successful where the indigenous people had maintained a close connection with the land, although it also said that land titles acquired under accepted law since European settlement should not be disturbed.

To complicate matters further, the Mabo decision determined that states and territories could extinguish native title – but only in accordance with the country's constitution and laws, notably the 1975 Racial Discrimination Act. In short, compensation could be required.

Unfortunately, the High Court ruling was made in the narrow context of one claim, and gave little guidance on the practical application of these principles. From the outset, the federal government was forced to tread a fine line between meeting Aboriginal demands, now backed up by the Mabo ruling, and delivering a degree of reassurance to existing land users, such as the mining companies and farmers, so that economic stability was not threatened. To make the task harder, it also had to juggle a delicate relationship with Australia's states and territories, traditionally responsible for land management.

The final package, as agreed by the cabinet this week, is complex. Essentially, it will allow indigenous people to pursue claims for native title either through the federal court or through state jurisdiction. Decisions on the economic use of land, however, will remain the domain of the states, provided they comply with the "spirit and principles" of the Commonwealth legislation.

All existing leases can be "validated", and native title will then be extinguished for all categories other than mining leases. Governments will pick up any compensation costs resulting from validation of existing grants and "there will be further discussions with states and territories on cost-sharing arrangements between the Commonwealth and complying states".

Where land is subject to native title, the indigenous holders will not have a veto on development, but they will have a "right to negotiation". Mr Keating's statement suggested that the time limits for negotiation would be set at four months in the case of exploration licences, and six months for mining leases. There would also be four- and six-month arbitration periods for the two respective categories.

Will the package fly? On the political front, the Australian Democrats, one of the two minority parties whose parliamentary support is essential, welcomed the package. State premiers in New South Wales and South Australia and the chief minister in the Northern Territory reserved judgment, but Queensland and Victoria came out in support.

On the commercial front, the National Federation of Farmers supported the deal. Even the Australian Mining Industry Council, an umbrella group for the large mining companies, gave lukewarm endorsement. It noted that the package would at least provide certainty by validating existing leases. But the AMIC still quarrelled with the lack of parity between mining and pastoral leases; claimed that native title claimants' right to choose between federal and state jurisdictions would prove unwieldy; and maintained that all states would need to be supportive for the package to work.

This may be the sticking point. Western Australia – a key natural resources state – has taken the hardest line against the federal proposals to date. Yesterday, Mr Richard Court, the Liberal premier, said the legislation could lead to long court battles, and pointed out that up to 40 per cent of the state may be subject to native title claim. He is due to hold talks with Mr Keating's legal advisers in Melbourne today.

The Aborigines' response, meanwhile, was mixed. Although Aboriginal representatives were closely involved in the final negotiations, more radical elements within the indigenous community were far from impressed. "It's the coming of the second invasion," said Mr Bob Weatherall, a Brisbane-based activist and chairman of the Aboriginal Provisional Government.

It was up to Aboriginal people to prove that native title existed rather than the other way round, he commented. "The High Court made it plain that it was wrong for governments and commercial groups to collude in taking away Aboriginal land interests in the past without accounting to Aboriginal people. It must be equally wrong for the federal parliament, and the states and territories, in 1993 to repeat the dose by 'validating'."

Something to smile about: Keating announces the agreement yesterday AP

Russia spurns Japan's plea over dumping

By William Dawkins in Tokyo

FRESH tension entered relations between Japan and Russia yesterday, when Tokyo issued a formal protest over Russian dumping of nuclear waste in the Sea of Japan.

Mr Lyudvig Chizhov, the Russian ambassador to Japan, was summoned to the Foreign Ministry to receive a demand that no further dumping should occur.

Mr Chizhov was reported to have replied that Russia did not plan to end the practice, because of inadequate storage on land.

At the same time, the US lent Japan its support by urging Russia to honour an international moratorium on dumping nuclear waste at sea.

The dumping, last Sunday, of 900 tonnes of low-level coolant and cleaning water from Russia's ageing fleet of nuclear submarines, has provoked widespread anger in Japan.

It came only a week after strained relations with Russia looked set to improve, thanks to a diplomatically successful visit to Tokyo by Mr Boris Yeltsin, the Russian president.

The Foreign Ministry asked Mr Chizhov to ensure that the Moscow government cancelled plans to dump a second load of radioactive waste by November 15 and repeated an offer to help Russia dispose of nuclear waste on its own territory.

"It is absolutely deplorable. We shall strongly protest if Russia goes ahead with plans to dump nuclear waste again," said Mr Tsutomu Hata, Japan's foreign minister.

The complaint was delivered after a cabinet meeting in which several ministers voiced anger.

Officials from both sides are to meet in Moscow on November 11 and 12 to discuss the problem of radioactive waste dumping at sea.

Russia informed the International Atomic Energy Agency in advance, an agency official confirmed yesterday.

The moratorium on dumping only covers high-level waste, though signatory countries had also voluntarily decided not to dump low-level material, he said.

The radioactivity of both loads of waste, as registered by the Russians, was within agency guidelines.

Money supply grows faster

By William Dawkins

JAPANESE money supply increased its growth rate slightly last month, adding weight to banking industry claims that there is no credit shortage.

The broadly defined aggregate of M2 (cash in circulation and time and demand deposits) plus certificates of deposit rose 2 per cent in September, against the same month last year, having risen 1.7 per cent in August, the Bank of Japan said yesterday. It attributed the September rise, the sixth monthly increase in a row, to greater corporate fund raising in the capital markets, rather than more bank lending.

This coincided with an announcement from the Federation of Bankers' Associations of Japan, the main industry body, that it had asked members to back the government's recent economic stimulation package by maintaining "smooth lending".

Outstanding loans by the 11 top commercial banks fell 0.5 per cent to Y222,260bn (£1,365bn)in the six months to the end of September, the first half-yearly fall since the survey began 39 years ago. Mr Tadashi Okura, federation chairman, said banks would continue to try to help business through the recession.

Concession ends Australian budget impasse

By Nikki Tait in Sydney

THE 64-day impasse over the Australian budget ended yesterday when the federal government reached a deal with minority parties, who hold the balance of power in the Senate.

This should ensure that the government's revenue-raising proposals can pass through both houses. Previously, the Senate had voted down two elements of the package – a second round of wholesale tax increases, due to come into effect in 1995, and measures to increase wine tax.

The main negotiations yesterday centred on the two Green Party senators. They emerged from the discussions late in the afternoon to announce that the government would make a series of concessions to compensate for the wholesale tax increases. These would include:

- A A\$3 (£1.20) increase in the job search allowance for the short-term unemployed from March next year.
- An extra A\$1 a child a week in family payments to low-income families.
- An extra A\$2m in emergency programme payments.
- Abandonment of the higher education charge for students taking more than the minimum time to complete their degrees.

The two Greens also negotiated to have future wine tax increases examined by an independent inquiry, headed by Mr John Button, a former industry minister, rather than by the Industry Commission.

Commenting on the changes, Mr Paul Keating, the prime minister, said he believed the agreement was "a reasonable compromise which does not undermine the government's medium term debt reduction strategy and is consistent with the intentions of the government for future budgets".

Rice offer splits Japan's people and politics

Tokyo politicians are beginning to face up to the inevitable, reports Emiko Terazono

JAPANESE rice farmers took to the streets of Tokyo last week in protest at the government's offer in Gatt negotiations to phase out the country's ban on rice imports.

Japan, seeking to avoid being blamed for delaying the Uruguay Round world trade talks, said informally it would open its rice market after a six-year moratorium.

But while many farmers are angered by the government's move, most are aware that an eventual opening of the Japanese rice market is would be inevitable.

Only last year, the then prime minister Mr Kiichi Miyazawa called for "flexibility" on the rice issue, while members of his cabinet moved to build public opinion for the opening of the rice market.

The government started to prepare a package to liberalise the rice market following rising prospects of an early agreement of the Uruguay Round.

However, Mr Miyazawa managed to escape making the big decision to open the market, as the government shelved plans to lift the import ban earlier this year after the US and EC failed to agree on farm subsidies.

The prime minister, Mr Morihiro Hosokawa, and his cabinet are making the ritual protests against rice liberalisation.

However, before becoming prime minister, Mr Hosokawa was in favour of an open rice market. Furthermore, he is supported by the back room power broker, Mr Ichiro Ozawa of the Japan Renewal Party, and the posts of agriculture minister, foreign minister, and minister of international trade, are all held by leading JRP members.

Japan's controversial offer, leaked to the press last week, includes a six-year grace period of tariffication on rice, during which it will accept imports equal to three to five per cent of domestic rice consumption. US officials point out that while it remains to be seen if other countries will accept the plan, Japan's move was a "big step forward".

But even if other Gatt members accept Japan's plan, Mr Hosokawa will need to convince coalition members which staunchly oppose rice imports.

The socialists, who rely on the rural vote, have generally opposed lifting the import ban. Some are threatening to leave the coalition if the ban is lifted.

The Liberal Democratic Party, strong in rural constituencies, also oppose liberalisation. The LDP, however, risks being split over the rice issue, since some LDP members, including young urban MPs, support liberalisation.

In order to avoid a rift within the coalition disrupting the debate over political reform, the coalition is considering a parliamentary vote over rice imports. In 1988, parliament unanimously voted against opening the rice market.

But having lost its support base due to its failure to change its image from the rigid left, the socialist party does not seem to have much choice than to eventually side with Mr Hosokawa. Many of the younger members feel the party will not have much to gain by leaving the coalition government, and are calling for the party to accept liberalisation.

Mr Jeff Young, political analyst at brokers Salomon Brothers in Tokyo, says: "The only chance for the socialists' survival is to cling to the coalition". There is a high possibility they will opt for concessions likely to be offered by Mr Hosokawa, such as income support for farmers, instead of abandoning the coalition.

Mr Hosokawa is also trying to weaken the strong rice lobby by electoral reform, which will ease the disparity between the rural and urban vote. By redefining the constituencies, he wants to weaken the clout of the rural vote, which can be worth up to three urban votes.

It is likely that Japan will officially make its offer after the EC and US settle their disagreement over agricultural trade, thus placing Japan at the centre of the negotiations and allowing the government to say it has defended farmers' interests in the face of international pressure.

Travel tax 'to make up tariff losses'

By Nancy Dunne in Washington

THE Clinton administration yesterday ignored Republican threats to oppose the North American Free Trade Agreement and proposed \$2.35bn (£1.55bn) in new travel taxes to compensate for the loss of tariff revenue.

Mr Mickey Kantor, US trade representative, yesterday told the House ways and means committee the tax would amount to \$5-\$10 on aircraft or ocean-liner tickets; \$7.50-\$15 on railroad and \$5-\$10 on commercial vehicles.

The revenue-raising method had been selected, he said, because of the close ties between trade and travel.

The administration had by law to come up with taxes or budget cuts to replace the lost tariff revenue. But this way, it defied a group of Republicans led by Mr Newt Gingrich, House minority whip, who say they would find it "difficult" to support a Nafta which includes new taxes.

One month before the November 17 House vote on Nafta, the administration is facing numerous such obstacles in its fight to get the implementing legislation approved. Much of its troubles stem from the uneasy alliance in support of the pact.

This includes moderate Democrats, at present about one-quarter to one-third of the House Democrats, and Republicans on the lookout for political traps. Worried the administration will pull away from Nafta and they will be left alone in support of an unpopular pact, Republicans have demanded the administration lure at least 100 Democrats to the pro-Nafta side.

They also insisted on a labour side agreement that is so weak it has failed to attract the hoped-for union support.

Democrats such as Mr Richard Gephardt, House majority leader, have demanded the administration set up a strong job-training programme. Because this would require more taxes, which would anger Republicans, the administration has proposed only an 18-month \$90m plan with the promise it will propose a more comprehensive programme next year.

If, as expected, 145,000 workers lose jobs by 1995 because of Nafta, this "bridge" plan would provide only \$620.69 per worker, according to Congressman Collin Peterson, a Minnesota Democrat.

Mexicans warn on environment

THE Mexican government has warned that environmental protection will be undermined if the proposed North American Free Trade Agreement (Nafta) is rejected by the US Congress, writes Damian Fraser in Mexico City.

Mr Santiago Oñate, attorney-general for the environment, said that without Nafta there could be a backlash in Mexico that would make environmental enforcement more difficult, and damage co-operation with the US and Canada.

Mr Oñate, Mexico's top environmental official, said he was concerned it would be impossible to fund a clean-up of the US-Mexican border, as planned under a billion-dollar scheme.

His comments appear part of a concerted campaign by Mexico to pressure the US into approving the treaty. President Carlos Salinas has suggested that rejection of the treaty could set back US-Mexican relations for generations.

Poll revives question: will Quebec quit?

Tory collapse stokes separatist debate, writes Bernard Simon

SHERBROOKE, an industrial and farming centre in the rolling countryside east of Montreal, will be one of the most closely watched constituencies on election night in Canada next Monday. Political analysts say the outcome there could have a significant impact on national, and especially Quebec, politics over the next few years.

The result in Sherbrooke will shape the political future of Mr Jean Charest, who is the town's sitting MP and, since last June, deputy prime minister in Ms Kim Campbell's Progressive Conservative cabinet.

Most important, the youthful Mr Charest, aged 35, is viewed as one of the few Quebec politicians able to articulate a vision of the future in which the francophone province remains part of Canada. But the Conservatives, who have held office in Ottawa for nine years, have their backs to the wall in the election campaign.

Recent opinion polls indicate that the Tories will not only be defeated by the Liberal party, they may even fail to gain enough seats to form the official opposition.

Nowhere has the Tories' collapse been more spectacular than in Quebec. The party now has 56 out of 75 Quebec seats in the House of Commons. But if recent opinion polls are any guide, it will be lucky to win three or four on October 25.

The Tories have fallen victim in Quebec less to the Liberals than to the Bloc Québecois (BQ), a group formed in 1988 to press for sovereignty for the francophone province. The BQ, led by Mr Lucien Bouchard, a former Conservative cabinet minister, is expected to pick up between 40 and 55 seats on election day.

The BQ's strength has again brought to the boil the interminable debate about whether and for how long Quebec will remain part of Canada. The election of a large group of BQ MPs will not in itself bring independence to Quebec. "We cannot do anything formally to implement sovereignty in Ottawa," Mr Bouchard says. "This has to be done through a decision made by Quebeckers in a referendum."

In any case, opinion polls suggest that the number of Quebeckers who vote for the BQ next week will be far greater than the hard core of nationalists who actually favour a break with the rest of Canada.

Among those likely to back the BQ in the election are many who, while not favouring full independence, are frustrated by the failure of one set of constitutional talks after another over the past decade to devolve more powers from the federal government to Quebec.

Political observers also ascribe the BQ's strength to Quebeckers' sense that a vote for the Bloc next Monday carries relatively few risks. For many, the BQ's attraction is that it offers a change from the two traditional parties, holding out the promise of better economic times if Quebec's interests are given higher priority in Ottawa.

Mr Alain Dubuc, chief editorial writer at La Presse newspaper in Montreal, wrote in a recent column: "There are no alternatives to the Bloc and that's the problem."

The provincial poll to be held some time during 1994 will be far more crucial to Quebec's future than the general election. The BQ's provincial arm, the Parti Québecois, has pledged to hold a sovereignty referendum within 12 months if it succeeds in unseating the ruling Liberals in the provincial election.

The risk is that the presence of a large contingent of separatist MPs in Ottawa could generate rising support for sovereignty within Quebec as the provincial election and then – possibly – a referendum approaches.

Mr Bouchard has promised that the BQ will not obstruct the parliamentary process. But it could raise the level of Quebeckers' frustration with the federal system by making demands which a national government, balancing Quebec's needs with those of other parts of the country, cannot fulfil.

For instance, among the decisions facing the next government is the likely closure of some military bases. Mr Bouchard notes however, that while Quebec has 25 per cent of Canada's population, it has only four out of 26 bases. He insists that all four must remain open.

The BQ's ability to further the separatist cause could be enhanced by the expected strong performance next Monday of the right-wing Reform party, whose main support is in western Canada.

A pillar of the Reform platform is that Quebec should get precisely the same treatment as all nine other provinces. If Quebeckers insist on special powers, so the Reform argument goes, they should not be discouraged from leaving the fold.

The political situation within Quebec is also fluid. Mr Robert Bourassa, the respected and popular Liberal premier, announced his resignation from politics last month.

The timing of his announcement at the start of the federal election campaign was widely interpreted as a signal to Quebeckers that they might wish to think twice before adding one bit of political instability to another by voting BQ.

But Mr Bourassa's decision has thrown his own provincial Liberal party into disarray. The new leader will be chosen at a convention next January. But only one candidate for Mr Bourassa's job – Treasury Board president Mr Daniel Johnson – has so far come forward.

Other senior party members are offended that Mr Bourassa turned a blind eye to Mr Johnson's early lobbying for the leadership and failed to give them enough time to organise their campaigns.

Mr Johnson is a staunch federalist and has a blue-chip political background. Both his father and brother were premiers of the province.

But there is some doubt whether he can match either Mr Bourassa's deft political touch within the party, or Mr Bouchard's charisma on the stump. Hence the hope in federalist circles that Mr Charest will still have a platform after next Monday from which to appeal to Quebeckers not to give up on Canada.

TWO of Canada's most senior politicians have warned of the dangers of electing Bloc Québecois candidates in next Monday's election, writes Bernard Simon in Toronto. Mr Robert Bourassa (right), Quebec's premier, said that a vote for the BQ could be "very risky. It can be counter-productive to favour the instability of Canadian institutions".

Federalists in Quebec have been hoping Mr Bourassa, arguably the most respected politician in the province, would intervene on their side in the election campaign. But opinions are divided on whether his remarks will have a significant impact.

Mr Michael Wilson, the former finance minister who is not standing for re-election, wrote in a commentary in the Globe and Mail newspaper yesterday that "without a strong, truly national voice in parliament, the debate [on Quebec's place in Canada] could become nasty and divisive for the country." He said strong support for the BQ and the Reform party, based in western Canada, "could generate significant risks for Canada".

US shifts focus of drugs crusade

By Stephen Fidler in Washington

MR Lee Brown, director of the White House drug control policy office, will today outline a shift in US anti-narcotics strategy which envisages a reduction of operations to intercept drugs transported through Central America and the Caribbean.

Mr Brown's testimony before the Senate judiciary committee follows a review by government agencies of US drugs strategy.

One of the conclusions of the review is that interdiction operations in Central American and Caribbean – including deployment of AWACs and CP3 surveillance aircraft and naval patrol craft – have not been cost-effective.

Interdiction will remain an important part of the strategy but its focus will shift towards source countries, where the emphasis will be on developing local capabilities in intercepting drugs flights and halting operations of cocaine laboratories.

"What we are trying to do as part of the new strategy is to place more emphasis on institution building and more emphasis on support for source countries in terms of economic growth and development," said a senior State Department official.

The strategy will propose increased help for cocaine-producing countries – chiefly Bolivia, Peru and Colombia – in their domestic anti-drug programmes, aid with the administration of justice, which is also seen as cementing democracy, and greater emphasis on alternative development in the countries' coca-growing regions.

The US is expected to seek support from the Washington-based international financial institutions in developing the strategy.

Mr Brown's testimony will, however, emphasise developments in drug policy on the domestic front. As well as outlining the strategy – whose full detail will not be known until the budget is presented to Congress next February – Mr Brown is attempting to extend his office's current five-year authorisation, which expires this year.

Argentina to pay creditor banks \$7bn this month

By John Barham in Buenos Aires

ARGENTINA is to issue \$7.23bn (£4.78bn) in bonds to creditor banks by the end of this month to securitise unpaid interest on its foreign debt and so bring to a virtual close the restructuring of its commercial bank debts.

Earlier this year Argentina signed an agreement with its bankers to cut its \$32bn external debt by a third by issuing concessional "Brady bonds" which stretch out maturities and cut both principal and interest.

As part of this agreement, Argentina also agreed to pay \$8.5bn interest arrears accumulated up to December 1991 by issuing more bonds. Until then, Argentina paid banks only \$70m a month in token interest payments.

It will now begin paying the arrears with 12-year bonds that pay $\frac{13}{16}$ per cent over Libor. Payment will come in two stages.

Mr Daniel Marx, financial secretary, said yesterday that bonds worth \$7.23bn would be issued this month.

A second batch, worth \$1.28bn, would be issued by December. Mr Marx said the delays were due to difficulties facing bankers, auditors and government officials in establishing the precise amount of unpaid interest due.

Once the process is complete, Argentina will have \$25.4bn-worth of Brady bonds outstanding.

These bonds offer creditors the choice between maintaining the value of loan principal but accepting a low fixed interest rate, or accepting a 30 per cent cut in principal in exchange for floating interest rates.

Banks took \$12.6bn-worth of par bonds that preserve principal and \$4.3bn in bonds that pay floating interest. These bonds are backed by \$3.2bn-worth of zero coupon US Treasury bonds.

Aylwin snubs Chilean health strikers

By David Pilling in Santiago

THE CHILEAN government has refused to negotiate with striking health workers, whose national stoppage today enters its third week. Most hospitals yesterday continued to turn away all non-emergency cases, a situation that has persisted since the 55,000-strong Federation of National Health Workers called a national strike on October 6.

President Patricio Aylwin recently told the federation, which comprises mainly low-paid auxiliary hospital staff: "This strike is pointless. The position of the government is very clear: we will not negotiate while strike action continues". Last week the president's phrase "not a peso more" was splashed over the front pages.

The governing centre-left coalition, the Concertación, is determined not to appear weak in the face of popular demands, many of which have festered since the end of Chile's 17-year military rule in 1990. Many middle class and semi-skilled workers saw their real wages drop substantially during the 1980s.

The Concertación has insisted that its policy of fiscal restraint, maintained throughout four years in office, will not be slackened in the run-up to this December's general election. Its determination to resist high wage demands, many of which it regards as politically motivated, is all the more difficult given the economy's average growth rate of 6.5 per cent since 1990.

The government has characterised as electioneering the guarded support for health workers from Mr Arturo Alessandri, presidential candidate of the right-wing electoral pact, Union for Chilean Progress.

Haitian ruler ignores peace plan as fleet gathers

LT GEN Raoul Cedras, Haiti's army commander, yesterday ignored demands to respect the United Nations-brokered plan allowing the country's exiled president to return, despite the re-imposition of an international embargo, AP reports from Port-au-Prince.

Six US and three Canadian navy ships were offshore to enforce the embargo yesterday, and a French frigate was on the way to join them. Britain said it would send a frigate.

Gen Cedras relaxed with aides at army headquarters early yesterday after the midnight deadline for him to comply with the plan passed. News photographers snapped shots of him smoking and joking.

Asked what the army would do if US troops came ashore to rescue Americans, he said: "I'm certain it will not reach such a point."

The embargo aims to compel him to live up to an accord he signed to allow exiled President Jean-Bertrand Aristide to return to office on October 30. Gen Cedras was a key part of the military coup which overthrew Mr Aristide – Haiti's first popularly elected president – in 1991.

The capital, Port-au-Prince, came to life slowly on the first day of the embargo. "Gas supplies are normal. There's no rationing, yet," a pump attendant said. Prices remained stable at about \$1.50 (£1) a gallon and there were no queues.

But schools, government offices and some shops remained closed for a second day on Mr Aristide's orders, to mourn the assassination last week of Mr Guy Malary, the justice minister, who was part of the transition cabinet preparing for Mr Aristide's return. Mr Robert Malval, the prime minister, has blamed military authorities for the murder.

The sanctions decreed by the UN Security Council include a ban on oil and petrol shipments, a ban on weapons, and a freezing of overseas assets of Haiti's de facto authorities or "their agents".

While the blockade could stop tankers, the UN has taken no measures to halt petrol shipments from the Dominican Republic, which shares the island of Hispaniola with Haiti. The Dominican government is close to Haiti's army, and previous cross-border embargo violations had been reported.

The Haitian military is also believed to have stockpiled several weeks' supply of oil reserves.

The dispute has raised tensions in Port-au-Prince. Hundreds of residents have fled to the countryside in anticipation of more army repression or a foreign invasion.

Gen Cedras said the solution to the crisis lay in further negotiation, but UN envoy Mr Dante Caputo, the architect of the plan to restore Mr Aristide, rejected that idea.

Brazil's Congress to probe claims

By Angus Foster in São Paulo

BRAZIL'S Congress yesterday decided to conduct a special inquiry into corruption allegations levelled against more than 20 members. But an important constitutional revision process, which some analysts feared would be delayed by the scandal, appeared to remain on track.

The inquiry has 45 days to decide if there is any truth to the allegations, made by Mr José Carlos Alves dos Santos, a former budget secretary who is now facing murder and other charges.

He named several senior politicians, including two serving government ministers and the president of the Senate, as benefiting from a corrupt scheme linked to construction contracts under the governments of former presidents José Sarney and Fernando Collor.

Investigators found \$1.4m (£933,000), including \$30,000 in counterfeit US currency, at Mr dos Santos's home and in safety deposit boxes, police said.

All the politicians involved have denied the charges. An inquiry last year led to the downfall of then-president Collor on unrelated corruption charges.

Congress decided yesterday to continue work on the constitutional revision, aimed at simplifying and modernising the constitution, in parallel with the investigation. Groups opposed to the review, including left-wing politicians and church groups, had called for its suspension pending the outcome of the inquiry. They argued that with so many members of Congress under suspicion, its rulings on the constitution would be in doubt.

The two government ministers have remained at their posts, despite offering their resignations to President Itamar Franco in order to contest the allegations.

Mr Franco, who has stressed the probity of his regime, is thought to want to hear any evidence in full before making a decision on their future.

Housing starts leap in US

A SURGE in apartment building during September pushed US construction starts to their highest rate for three and a half years even though building of single-family homes weakened, the Commerce Department said yesterday, Reuter reports from Washington.

The overall annual rate of starts on new homes increased by 2.8 per cent to a seasonally adjusted annual rate of 1.35m after a revised rise of 6.7 per cent in August. Starts were up everywhere except in the South, where they fell.

The September pick-up was entirely in multi-family homes, which soared by 52 per cent to a seasonally adjusted annual rate of 210,000. By contrast, starts on single-family homes fell 3 per cent to a rate of 1.14m.

Mortgage rates were moderate throughout September and by last week had touched a 25-year low of 6.81 per cent for a 30-year loan, according to the Federal Home Loan Mortgage Corp.

A National Association of Home Builders survey found its members buoyant about sales over the next six months. Some 62 per cent of respondents saw sales on the rise.

NEWS: WORLD TRADE

Blair House impasse 'puts Gatt at risk'

By David Gardner in Luxembourg

REFUSAL by the US to open talks with the European Community on "clarifying" the Blair House farm trade agreement will make it hard to conclude the Uruguay Round world trade reform negotiations by their December 15 deadline, Mr René Steichen, EC agriculture commissioner, warned yesterday.

"The deadline might be realistic if the Americans are prepared to shift a bit," Mr Steichen said.

Briefing EC farm ministers on his talks last week with Mr Mickey Kantor, the US trade representative, Mr Steichen said he was disappointed by Washington's intransigence over the EC's "legitimate, reasonable and responsible" demands.

According to the commissioner, Mr Kantor refused to discuss the additional farm trade concessions sought by France and incorporated into the EC's negotiating brief after a special meeting of foreign, trade and agriculture ministers on September 20.

Mr Kantor also refused to open technical discussions with the EC at senior level, dismissing the "clarifications" sought by Europe as an internal Community problem.

At yesterday's Council of Ministers, however, the Commission and most member states argued that the US stance might be tactical. "It was always unlikely that the Americans would say now what more they were prepared to discuss in agriculture," one senior Brussels official said.

Mr Steichen's comments set the tone for a low-key debate on the Gatt farm chapter, but also prompted France, Spain, Belgium, Ireland and others to question the December 15 deadline, when the US administration's "fast track" negotiating authority runs out.

Mr Jean Puech, France's agriculture minister, insisted the EC should not be mesmerised by the date. He also introduced a new element into the farm trade imbroglio by insisting the Commission nail down precise interpretations of the extent to which sanitary, plant health and veterinary regulations can interrupt normal trade in agricultural produce.

See Commodities

French reassured

A GATT accord would help France promote its service sector, protect its patents and, in the fraught agricultural area, push its processed food exports, Mr Peter Sutherland, director-general of the world trade body, said yesterday, writes David Buchan in Paris.

In a powerful speech to a business conference in Paris, he underlined France's self-interest in a rapid conclusion to the Uruguay Round negotiations. Mr Sutherland also warned that a failure of Gatt talks would not halt adjustments in the world economy, but simply ensure that "the law of the jungle will prevail".

The Gatt chief praised Prime Minister Edouard Balladur for launching his country into a national debate on the world trade talks' outcome. France and other European countries, he said, faced a choice between "thriving in an open global economy with effective and fair rules... or stifling to death in an over-protected EC".

Mr Sutherland rejected the widespread notion in France that the December 15 deadline for Gatt negotiators to finish their work was an "American" date, pointing out that it also had EC acceptance. He noted a Gatt deal would help suppress counterfeiting of French luxury goods and protect the patents of high-tech industry.

Fine-tuning in the overseas risk business

Ruth Harkin: cautious support

Lisa Bransten on a new chief at the Overseas Private Investment Corp

IN a corner behind the door to Ms Ruth Harkin's office sits a pile of framed maps of the world, which the new head of the Overseas Private Investment Corporation has not yet had time to hang.

"My personal imprint on the office so far is the paperwork on my desk," she says, several months after her June 2 swearing in.

In April President Bill Clinton launched Opic on its most challenging venture to date: providing loans, loan guarantees and risk insurance to US companies going in to the former Soviet Union, as part of the administration's \$1.6bn (£1.05bn) Russian aid package.

Opic hopes to convert \$40m of government funds into more than \$1bn in loan guarantees, new loans and equity projects in Russia over the next two years.

Like his Republican predecessor, the new president sees Opic as a foreign policy tool. Especially in the current cash-strapped era it is easier to encourage business to go abroad and contribute to development efforts than to make direct appropriations of foreign aid.

In 1992 the 22-year-old agency received its first congressional appropriation. Since then it has done something almost unheard of in the halls of government: return the money. This year, Ms Harkin says, she will give back about \$17m to Congress.

The agency's main mission is to provide insurance against currency problems, political violence and expropriations to companies seeking to invest abroad. It functions much like a private insurer collecting fees from the organisations it insures. Opic also offers financial services such as direct loans to businesses and fee-earning advisory services.

The agency has attracted a degree of controversy, with labour unions arguing it is encouraging "runaway plants" that cost US jobs. During the 1992 election campaign the Clinton camp lambasted Opic, along with the Agency for International Development, for encouraging manufacturers to relocate their plants in Central America.

But business believes it has found a champion in Ms Harkin, according to Mr Willard Workman, vice-president of the US Chamber of Commerce. The business community feels the Department of Labour is resistant to foreign investment because of the consequent job losses at home.

"We think that's a specious argument because there are going to be some jobs created in Guatemala, but there are also going to be jobs created here to oversee that investment," says Mr Workman. However, labour, which is not such a natural ally for Opic, has expressed hope that Ms Harkin will be more sensitive to job-loss issues, in that her husband, democratic Senator Tom Harkin, has always been a strong union supporter.

Ms Harkin said she would not encourage companies to take plants abroad, but she takes a business-oriented approach to whether moving a factory costs American jobs. Factories moving abroad can still create jobs at home, she says, because "you are utilising the local workforce, but at the same time you are bringing over American equipment, which means American jobs."

The battle over the North American Free Trade Agreement has served to heighten sensitivities about Opic policies, with labour and environmental groups scrutinising US trade policy more closely than before.

"Given the heated debate about Nafta there is a change in the nature of the debate that was not there in the past," says Dr Robert Lawrence, a professor of economics at Harvard University.

Thus far, however, Ms Harkin has earned cautious support from factions which are fighting tooth and nail over the agreement.

One of the agency's newest initiatives is an environmental growth fund that Opic will use to encourage US "envirotech" companies to help clean pollution abroad – a project which Ms Harkin sees as the agency's biggest departure from the Bush era.

Overall, Ms Harkin believes her role is to fine-tune rather than overhaul the agency, which she describes as "a jewel in terms of its efficiency and the calibre of its employees".

It is a job quite different from that confronting the head of the troubled Agency for International Development, a job Ms Harkin went after but did not get. "The intrigue at AID was on a totally different level," she said. "Many people have told me that I am very fortunate [not to be at AID] and I believe them."

BAe-Taiwan joint venture aircraft would rival Boeing

By Daniel Green and Dennis Engbarth in Taipei

THE RJ-X aircraft for which Taiwan is insisting on a British Aerospace development pledge would be a direct competitor to the Boeing 737, the world's biggest-selling aircraft.

BAe has already spent about £10m researching the RJ-X. Last month it presented documents to Taiwan Aerospace Corporation (TAC) showing that the aircraft would be a complete redesign of the existing model, the RJ.

Its fuselage would be built of an aluminium-lithium alloy, a material normally associated with military aircraft.

Unlike the RJ's configuration of four engines attached to wings above the passenger cabin, the RJ-X would have a more conventional layout of two engines on a wing below the fuselage. There would be two versions of the aircraft, according to documents shown to the Financial Times by Taiwanese officials yesterday, one with 96 seats and the other with 125. Its range would be extended to "more than 1,500 nautical miles".

This would bring the aircraft into one of the most competitive civil airliner markets, competing against the smaller Boeing 737 versions as well as the latest addition to the Airbus family, the A319 – a smaller version of the A320 which was announced at the Paris Air Show in June. Boeing is now planning to develop a new family of 737 aircraft to give the airliner more efficiency and a longer range.

> 'Without the RJ-X, the joint venture would not be a success. It's not a question of yes or no but when it would be built'

It would also compete directly against the Fokker F-100 and the McDonnell Douglas DC9/MD90.

"Within the next 10 years, many 737s and 727s will retire. This would be a good time to market the RJ-X," said Mr David Chu, director of the government advisory team.

While TAC is insisting BAe commit itself to the development of the RJ-X, the UK company is less confident than Taiwan of its future. It is pressing for a detailed survey of the aircraft's potential market to be conducted first.

This position fails to convince Mr Chu. "Without the RJ-X, the joint venture would not be a success. It's not a question of yes or no but when it would be built."

Belelli to build oil platform

ITALY'S Belelli group has won a L130bn (£54.6m) contract to build an offshore oil platform for Shell and BP for deep-water production in the US waters of the Gulf of Mexico, writes Robert Graham in Rome.

The 20,000-ton platform, designed to sit in 910 metres of water, will be able to produce 100,000 b/d of crude and 110m cubic feet of natural gas. Belelli will be using a special "tension leg" design which involves a floating hull stabilised through the attachment of steel tendons to the ocean floor.

The new platform will operate some 200km south-west of New Orleans in the Mars field, which the new tension leg technology has made it possible to exploit. Belelli has built a previous tension leg platform for Shell for use in the Gulf of Mexico.

Credit agencies' future brightens

By David Dodwell, World Trade Editor

EXPORT credit agencies last year saw an improvement in their vulnerability to dangers of non-payment, for the first time since the 1983 Latin American debt crisis, according to the Berne Union, the umbrella body representing the world's leading agencies.

Mr Ragnar Sohlman, president of the Berne Union and chief executive of Exportkreditnämnden, Sweden's export credit agency, said at the end of the group's annual meeting that the overhang from the 1980s' debt crisis "remains a substantial problem", with most members showing significant cumulative deficits.

But closer linkage now being imposed between insurance premiums paid by exporters and the amount of export business covered "gives some hope for further improvement", he added. Debt restructuring arrangements being made under the auspices of the Paris Club of creditor countries implied "there will not be full or early recovery of many of the claims paid during the 1980s". So far, 58 countries have reached such arrangements.

New business underwritten in 1992 by the union's 43 members amounted to \$311bn (£206bn), 6 per cent lower than 1991. Claims fell, while premium income and debt recoveries increased.

The most dramatic change was in insurance cover for investments overseas, a type of cover offered by just 21 of the union's members.

This leapt by 48 per cent from \$4.8bn in 1991 to \$7.1bn last year. Much of the new cover was given for investments in the newly emerging markets of east and central Europe.

Wise men push for Budget rate cut

By Peter Marsh, Economics Correspondent

ANY tightening in fiscal policy in next month's Budget should be accompanied by a cut in interest rates to avoid jeopardising the "fragile" recovery, the Treasury's panel of outside economic advisers – the so-called "wise men" – said yesterday.

The group said Mr Kenneth Clarke, the chancellor of the exchequer, should set out a long-term package of measures to bring down public borrowing as a way to boost confidence of the financial markets, while spreading any tax rises over a wide spectrum of the UK economy to minimise the effects on demand.

In a cautious assessment of economic prospects, the economists said the slow upturn would continue but might "falter" in the second half of this year partly owing to weakening consumer spending as tax rises loom.

The panel expects UK gross domestic product to grow 1.7 per cent this year, and by 2.7 per cent next year. The upturn might be held back by "below potential" growth for some time in export markets in continental Europe.

The group's report was based on ideas from six out of its seven members, with Professor Wynne Godley of King's College, Cambridge, away from the discussions in the US.

The economists are concerned about the threat to the recovery of the £6.8bn of tax rises already due to take effect in April.

Even so they believe Mr Clarke should take action to cut the growing gap between public spending and revenues – likely to reach £50bn this financial year – because of the danger of a rapid increase in borrowing over the next few years.

"A prudent solution would be to introduce a package of tax and spending reforms, desirable in themselves, which would reduce the public sector borrowing requirement over a number of years," the panel said.

For the next financial year, the group suggests only a "modest fiscal tightening" because anything more than this might damage the recovery.

For 1995-96 and beyond the Treasury should pencil in a net fiscal tightening, taking into account both tax rises and cuts in public spending, amounting to about 1 per cent of gross domestic product or roughly £6bn.

One of the threats to the recovery is that, with unemployment remaining high and only low wage increases, personal disposable incomes are likely to grow "slowly if at all" in inflation-adjusted terms.

Also there are "worrying signs" that the housing market has failed to pick up convincingly.

The consensus among the panellists is that the government's 4 per cent ceiling for underlying inflation is unlikely to breached by the end of next year.

Vauxhall enters credit card market

By Alison Smith

VAUXHALL MOTORS, a subsidiary of General Motors, has become the first UK car manufacturer to enter the credit card market, launching a British version of the GM card currently available in the United States.

The card, to be issued in association with HFC bank, will offer customers a discount of up to £2500 towards the cost of a new Vauxhall vehicle.

Customers will be able to choose either a Visa or MasterCard general purposes credit card, and will pay no annual fee. The annualised percentage rate of interest will be 19.9 per cent.

That compares with a 22.9 per cent APR at Barclaycard, the largest issuer with 8.8m cards in issue, and a 23.9 per cent APR at National Westminster bank, which has 4m cards.

Since the GM card was launched in the United States in September 1992, almost eight million people have become cardholders. There are a further 800 000 in Canada, where it became available last June. GM said that the card had helped to sell over 70 000 vehicles.

Mr Charles Golden, the chairman and managing director of Vauxhall, said yesterday that the aim of the move was to strengthen the relationship with existing Vauxhall customers and attract new customers.

The new card could signal a strengthening of competition in the UK credit card market.

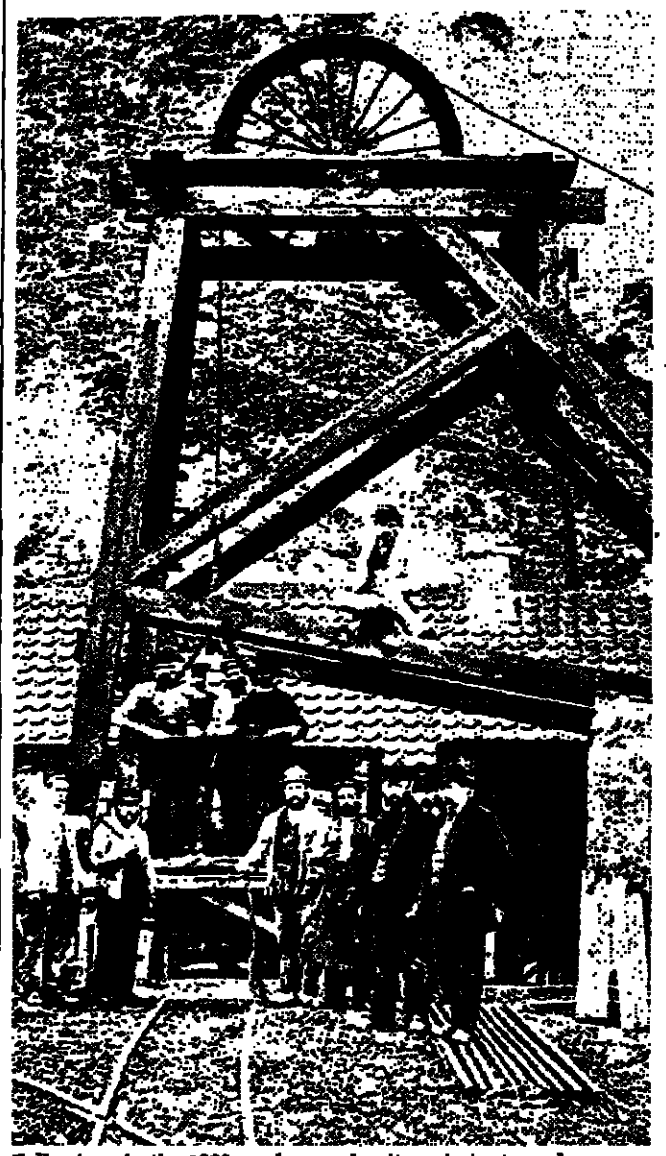
MBNA American bank has already announced its intention to set up a European headquarters and issue credit cards in the UK market. In the US a number of manufacturers, including Ford Motor and General Electric, now issue cards.

Because of the high numbers of company cars in the UK, the British GM card will include a new feature as an alternative to using the rebate towards the purchase of a Vauxhall as a second car.

Company car drivers will have the option of turning their discount points into vouchers that can be used in some shops, hotels and restaurants, rather than towards a reduction in a new car. This part of the scheme will take effect from the beginning of April next year.

Cardholders will receive a rebate of 5 per cent of the value of all purchases made with the card, to a maximum of £500 a year, off the price of a new vehicle. The maximum off any one vehicle will be £2,500 accrued over five years. The rebate points will also apply to balances from other cards transferred to the GM card.

Mr Golden said that the company would look at establishing a system enabling cardholders to receive a rebate on goods and services from corporate partners. In the US these include Mobil Oil, Avis, the car hire company, and Marriott, the hotel chain. GM Europe will be monitoring the progress of the card with a view to possible expansion into Europe.



Folkestone in the 1880s and an early attempt at a tunnel

UK's tunnel vision given new image

By Diane Summers

THE FIRST stage of a campaign by Eurotunnel to counter the British public's innate fear and suspicion of being linked to mainland Europe gets under way later this week.

Newspaper advertisements, one of which appears above, will aim to explain in a "friendly and informative" way how the Channel tunnel car passenger service will operate from May 1994. The £2m series of advertisements will form part of a wider £25m pan-European campaign to publicise "Le Shuttle".

Eurotunnel said there was still widespread ignorance in Britain about how the shuttle would work. "Most people now know you can't drive through the tunnel but many still think you can turn up as a foot passenger," it said.

BMP DDB Needham, which devised the newspaper advertisements, said research had shown that the public was less interested in the engineering achievements of the tunnel than how the shuttle worked and what benefits it brought. The four advertisements will emphasise speed, frequency and ease of use of the service.

Shuttles will take cars and their passengers 24-hours a day on the 35-minute trip without pre-booking. Prices have yet to be announced but are expected to match Dover to Calais ferry prices.

Japan plant wins orders in E Asia

By Andrew Baxter

A JAPANESE-OWNED factory set up in the UK to serve the European market for ball bearings has won its first orders from eastern Asia because of the strength of the Japanese yen.

The NSK Bearings plant at Peterlee, County Durham, set up in 1976, was one of the first inward investments in the north-east.

It is now benefiting from the strength of the yen, which has prompted NSK, its Tokyo-based parent company, to switch the order from its Japanese factories to the UK.

The Peterlee plant will supply bearings for the white goods industries in China and Indonesia. Mr David Smith, human resources director at Peterlee, said: "We are naturally delighted to win these orders. The uncompetitive yen exchange rate meant our parent was going to have problems in profitably serving some Asian markets."

The order highlights the problems for Japanese manufacturers caused by currency factors, and high domestic costs, over the past two years. This is encouraging many of them to consider exporting more of their production to overseas plants.

Japanese manufacturers are also looking to source the components they need for their domestic production plants from overseas, increasing the competitiveness of their highly automated Japanese plants.

Komatsu, the biggest Japanese construction equipment producer, recently announced that outsourcing would increase for its Japanese plants, with suppliers to Komatsu UK being added to its procurement list for the first time.

Komatsu also manufactures in the north-east, producing hydraulic excavators from a former Caterpillar plant at Birtley near Newcastle.

NSK's Peterlee operation – four plants employing about 820 people – normally exports about 80 per cent of its bearings to continental Europe, with the rest sold in the UK.

But the recession in Europe has forced the company to reduce operating volumes. The Asian orders have helped avert the need for an extended Christmas holiday break at Peterlee for the first time in two years.

"Peterlee was chosen to supply China and Indonesia because our quality is high enough to take the place of Japanese-manufactured ball bearings,"said Mr Smith.

But he added that the UK company could not rely on the Asian business in the long term and Europe continued to be very depressed, dragged down mainly by the poor state of the German economy.

"UK demand is improving, albeit falteringly, but not sufficiently to offset low sales activity elsewhere," he added.

Lady Thatcher's victims bite back

The former PM's memoirs attack the 'Wets' and 'Grandees'. Now they have said what they think about her. **Roland Rudd** reports

AFTER being savaged by Lady Thatcher in her memoirs the so-called "wets" and "grandees" have bitten back, attacking the style and policy of what one described as that "That Woman".

Lord Prior says Lady Thatcher was "dictatorial": Lord Pym, says she was against any suggestion of compromise, "which meant she had a confrontational style". While Lord Gilmour thought her judgment was totally misguided. "She very seldom said a sentence in itself that was interesting. Rather surprising in all those years."

In a BBC documentary series *Thatcher: The Downing Street Years*, starting tonight, the victims of the former prime minister describe their intense dislike of her manner.

Lady Thatcher's quotation of St Francis of Assisi, beginning "where there is discord may we bring harmony", is attacked by Lord Prior, her former employment secretary, as "complete humbug". He says it was "utter nonsense" for her to have used the quotation since she was the last person to believe in harmony.

Taking up this point Lord Pym, her former defence secretary, said her disdain of compromise made it very difficult to have constructive cabinet meetings. "The idea that somebody else might have a valid point of view which might be a right point of view would never enter her mind at all. No part of her philosophy."

Lord Prior says Lord Soames, who was leader of the House of the Lords, told him that he would not even have treated his gamekeeper as badly as Lady Thatcher treated one of her cabinet colleagues.

Lord Gilmour recalls how he and Lord Carrington, then foreign secretary, tried to negotiate a £1bn refund from the EC at the 1979 Dublin summit and ended up with only two-thirds of that amount.

They thought they had done rather well. But when they told the prime minister at Chequers she became "incandescent".

Lord Gilmour says: "Had we been bailiffs coming to take away the furniture I think we would have been more cordially received. She was like a sort of firework, and one could almost hear her almost sizzling."

Lord Carrington believes Lady Thatcher "did the foreign office a great deal of damage".

Lady Thatcher recognises she was unpopular with many colleagues and throughout the country but was determined to stick to her guns. "My name was mud with some of my colleagues. They always wanted, some of them, an easy way. But I always had enough to get us through."

She says they talked of me as That Woman. "It was That Woman which got things done....It never occured to me that I was a woman prime minister." As for her critics she says: "They had that Biblical weakness – some of them, not all of them – vanity, vanity, all is vanity.".

The only former colleague interviewed for the documentary who remains a loyal supporter is Lord Whitelaw, the former deputy leader, who points out that the party won three consecutive general elections under Lady Thatcher's leadership.

Directors of UK subsidiaries get 6%

By Robert Taylor, Labour Correspondent

DIRECTORS of UK subsidiaries of multinational enterprises enjoyed median pay increases of 6.0 per cent this year, according to the latest survey of managerial pay in Europe published yesterday by Monks Partnership, the British consultants.

After adjustment for inflation the increase in the UK was 3.3 per cent, compared with 3.1 per cent in France. According to the survey Britain's directors earn after tax just under £30,000 a year, which puts them in 10th position in the European earnings table with only the Nordic countries below.

A Monks Partnership spokesman said there was a much wider variation in the UK between the pay of parent and subsidiary company directors than on the continent. The UK subsidiary manager had median basic earnings of £41,000 a year but the director of a similar UK parent company got 30 per cent more.

Major to hear new overture of peace from Ulster

But have they really changed their tune? **Tim Coone**, in Dublin, looks at the latest peace plan from Northern Ireland

CAN a peace overture welcomed by the IRA be taken seriously? From the people who have pushed home their political message, not just through megaphones in street rallies, or through hunger strikes in prison, but with the invidious persuasion of the car bomb, the incendiary device, explosive letters and the silenced pistol shot in the night?

That is the anguished question that will face Mr John Major, the British prime minister, next week when he hears from the Irish government the details of the recent Hume-Adams peace initiative.

The two leaders from Northern Ireland say they are "convinced that a process can be designed to lead to agreement among the divided people of this island, which will provide a solid basis for peace".

With the government in a desperate economic bind and the Treasury pressing hard to make deep cuts in a stretched defence budget, the temptation for Mr Major to at least explore what may be on offer must be great indeed.

At the same time he is being pushed into a corner by rebellious Tory backbenchers threatening revolt over rail privatisation and welfare reforms, and must rely upon a crutch of support from Mr James Molyneaux's Ulster Unionist party (UUP) if he is to get these key pieces of legislation through the current parliament.

Mr Molyneaux, who sees treachery and betrayal of the "Union", the link with the British Crown, behind the Hume-Adams initiative, thus has a powerful weapon with which to attack it. So what is there for Mr Major to chew upon in this initiative, and what makes it different from the many failed peace initiatives of the past two decades?

First, it is not coming solely from Mr Gerry Adams, the leader of Sinn Féin, the political wing of the Provisional IRA.

It is co-authored by Mr John Hume, the widely respected leader of the mainly Catholic Social Democratic and Labour Party (SDLP), who is a lifelong opponent of using violence for political ends, and whose political inspiration is drawn from figures such as Martin Luther King and Mahatma Gandhi, rather than traditional Republican heroes such as Wolfe Tone or James Connolly.

Second, the initiative has the blessing of the Irish government, which has as much interest in seeing a peaceful settlement of the conflict in Northern Ireland as does the British government.

Both Mr Hume and Mr Adams have agreed to keep details of the initiative secret until both governments have had time to consider and evaluate it but following recent interviews with both men, the following outline of the initiative can be pieced together:

- The initiative sees a three-stage process, beginning with the search for a mechanism to bring about an end to hostilities, progressing through a protracted period of all-inclusive negotiations on the future constitutional status of Northern Ireland, and culminating in a simultaneous referendum north and south of the border;
- Mr Hume and Mr Adams do not have any blueprint for a future constitutional settlement, but are united in believing that Unionists should not be allowed to block the British government's own efforts to achieve progress;
- Mr Hume and Mr Adams would accept the outcome of a referendum, even if a majority in Northern Ireland were to reject a solution which would favour a nationalist perspective.

In relation to the last point, Mr Hume says that a simultaneous referendum both north and south of the border "would require a yes from' each. If either says no, it's not on. How much further can I go to reassure Unionists? I have not even suggested what a final agreement should look like, nor has Gerry Adams," he said.

On that same point, Mr Adams says: "I and Sinn Féin want to see an Irish national democracy but what form that takes is for the Irish people to decide". He said that were Sinn Féin's goal of a united Ireland to be rejected in a referendum, even just by a Northern majority, "we would continue to seek a Republican model but through the normal political process".

Mr Adams was not prepared at this stage to reveal what might be the minimum terms the IRA would find acceptable to lay down their guns. But he told the FT that he would like to see the IRA "in permanent retirement".

He said "We are trying to take the armed element out of the conflict, all aspects of it and not just the IRA. British forces are one element and the loyalist paramilitaries are another. We are trying to put together a political process, such that those presently involved in the military side of the struggle can become involved in a political process, putting aside the military aspect. I would like to see the IRA in permanent retirement. The Unionists have no monopoly in wanting peace".

He continued: "John Hume and I do not profess to have all the answers. Others also have to grasp the nettle as well, and we may have to make it easier for them to do so. If our proposals are not good enough, then let's hear why and see if people at this end can accommodate them. Everything is possible if the British government has the political will to move this process forward".

The Northern Ireland Office has responded with predictable caution to Mr Adams remarks.

It said yesterday: "Is there anyone who does not want to see all the paramilitaries in permanent retirement? Ending violence is enough of a valid, and long overdue aim in itself without it having to be paid for in concessions or preconditions. There can be no concessions to violence".

An NIO spokesman also referred to a key speech made by Northern Ireland secretary Sir Patrick Mayhew last December, in which Sir Patrick said: "in the event of a genuine and established cessation of violence the whole range of responses that we have had to make to that violence could and would inevitably be looked at afresh".

Clearly the biggest hurdle to the entire Hume-Adams initiative, however, is whether terms can now be agreed for the IRA to lay down and hand in its weapons, without either the British or Irish governments giving the impression they are in any way negotiating with the IRA or Sinn Féin, which could prompt a Unionist backlash.

Mr Hume has raised the stakes by putting his political career on the line in backing the initiative. If it fails, so will his credibility as the leader of the SDLP.

As the focus now shifts to the British and Irish governments' responses expected next week, they must be well aware of the significance of such a failure and the message it will send to the IRA.

The long evolution of Sinn Féin and 'The Provos'

- Sinn Féin means "Ourselves Alone" in Irish
- It is the "political wing" of the Provisional Irish Republican Army
- The PIRA is known as "The Provos".
- The Provos split from the Official IRA in 1969 after the OIRA pledged itself to non-violent protest.
- Provisional Sinn Féin, now known as Sinn Féin, split at the same time.
- The PSF left behind those republicans who were prepared to recognise the three parliaments in Dublin, London and Northern Ireland.
- PIRA demands the withdrawal of British troops from Northern Ireland and unification of the island of Ireland.
- Violent IRA campaigns were waged in the 1950s and 1960s for reunification.
- A campaign for Catholic civil rights against perceived Unionist abuses of power began in Northern Ireland in 1968.
- "The Provos" were founded in 1969.
- British troops were sent to NI in 1969
- The so-called "Troubles" had begun.
- The policy of internment in 1972 was a spur to fund-raising, particularly in the US.
- PIRA has talked to a Conservative government before, in 1972. One of the delegation was Gerry Adams - now president of Sinn Féin.
- The IRA maintains links with revolutionary groups in Europe and beyond
- Sinn Féin and "The Provos" maintain close links but are separate organisations.
- Sinn Féin won around 10% of the vote in the province at the last UK general election.
- The IRA is still waging a violent campaign in Northern Ireland and on the "mainland".

Britain in brief

High Court clears deal on Wharf

The High Court yesterday approved the £1.1bn restructuring package proposed for Canary Wharf, allowing the development to come out of administration and operate again as a solvent group of companies.

The government's commitment to fund the extension of the Jubilee underground line to Canary Wharf was dependant on yesterday's court ruling. It also means Canary Wharf can now finally sign contracts with two large new tenants which will take the occupancy level of the development up to around 50 per cent.

US cable investment

A US cable company has raised more than £270m to invest in building cable television and telephone networks in the UK, the largest sum to be raised by the industry so far it is believed.

International CableTel has raised $411m (£274m) in a mixture of debt and equity in New York to build cable networks in England, Scotland and Wales. Altogether the company, which includes the former interests of Insight Communications, holds UK franchises covering 950,000 homes in the UK.

Interest in New Towns

The Commission for New Towns reported a doubling of inquiries over the last six months from potential purchasers of land and buildings. The Commission, which is responsible for selling off the assets of the 21 former English new towns, said improved marketing techniques and a revival in economic confidence had led to a revival.

Recovery in top jobs market

Executive recruitment is showing signs of recovery with the highest growth in demand recorded for staff for five years, it was reported by MSL the human resource consultancy in its latest quarterly survey. "During the first half of the year we were very encouraged to see the level of recruitment at senior level stabilise", said Mr Garry Long MSL's chief executive.

MPs accuse Brunei

A group of Labour MPs last night accused the High Commission of Brunei in London of failing to honour debts incurred by sponsored students from the Sultanate. The MPs said the Commission had failed to honour payments owed to the landlords of properties rented by their students. No one at the Commission was available for comment.

Costco case in court

Three of the UK's major supermarket chains yesterday joined forces in a High Court action to block planning permission given for an American "warehouse club" to trade in Essex.

The case is being widely watched by the parts of the retail trade concerned about the impact the arrival of warehouse clubs could have on traditional UK shopping outlets.

Thurrock borough council has given planning permission for the US company Costco to build a 12,880 square metre warehouse.

Sainsbury, Safeway and Tesco have objected to the proposed development, claiming the council acted unlawfully by treating it as a wholesaler rather than a retailer.

The hearing is expected to end today.

£200m order for BAe unit

The government last night awarded a major £200m contract for ammunition to Royal Ordnance, ending a period of uncertainty for the British Aerospace subsidiary.

The announcement – coming at the very end of a Commons speech by Mr Jeremy Hanley, the armed forces minister – will help safeguard nearly 1,000 jobs over five years.

The Nordic pulp industry is under pressure to change its bleaching methods, writes **Christopher Brown-Humes**

Run-of-the-mill debates

When it comes to stirring up public antipathy towards the pulp and paper industry, a picture of a horribly maimed fish goes a long way. Or so Greenpeace in Germany found several years ago, when as part of a campaign to promote "totally chlorine-free" (TCF) pulp and paper production, it put out a spoof version of the magazine Der Spiegel, complete with photographs claiming to show the devastating impact which pulp mill effluents could have on marine life.

It must rank as one of German Greenpeace's most successful campaigns. By common consent, the environmental organisation did much to create the consumer pressure which has forced many German publishers, paper manufacturers and merchants to go "totally chlorine-free" in the last two years. This in turn has forced a number of pulp mills which supply the German market to find substitute bleaching agents for the chlorine compounds they use.

"German Greenpeace took the initiative against chlorine and it has succeeded," says Pertti Laine, director of the Finnish Forest Industries Federation's industrial and environmental unit. "We have had to invest billions of markka to change our bleaching methods." The latest in a long line of such investments will come on stream next month when Metsä-Botnia's Kaskinen mill in western Finland inaugurates a new ozone bleaching plant as part of its commitment to TCF production.

At least 10 Nordic pulp mills now have the capacity to produce TCF pulp, and nearly all of them have started these operations in the last couple of years. The investments have had to be made despite the severe financial squeeze which has gripped the industry as the pulp price has plummeted from more than $800 (£570) a tonne in 1989 to the $400 a tonne level which prevails today. The impetus has come because "nobody can afford to lose the German market", according to Richard Cockram, a consultant with the UK company NLK Consultants.

Germany is not the only country where environmentalists are pressing for TCF. Austria, Switzerland and the Netherlands, as well as the Nordic countries are all now leading consumers of TCF pulp, helping TCF's share of Europe's graphic papers market to more than double from seven per cent to 15 per cent in the past year.

But the trend has been much slower to catch on in the UK, France, Italy and other European countries, where consumers have been reluctant to pay extra for TCF.

There is no doubt that TCF pulp production costs more, simply because it requires substantial investment in new machinery. Thus the pulp mill wants a TCF premium from the paper manufacturer, who wants one from the publisher, who in turn wants one from the end-customer. This may be relatively easy to achieve in buoyant markets. But during the recession it has undoubtedly caused a squeeze which means not everyone in the chain is receiving the premium they require. Hans Burmeister, marketing director of Sweden's Södra Cell, the biggest supplier of TCF market pulp in Europe, says his company is generally managing to obtain the DM100-DM150 (£41-£62) per tonne premium from German customers which it needs to cover its additional costs. But the premium is only relative to a very depressed general pulp price, he notes.

The recession has also intensified the debate about the most effective and cost-efficient TCF bleaching process. Some mills just use hydrogen peroxide, but this is very costly; some use a combination of hydrogen peroxide and enzymes, but the pulp produced is less bright. More recently, a number of mills have started using ozone, as this enhances pulp brightness. But the development has not been universally welcomed because the gas is very reactive and highly poisonous.

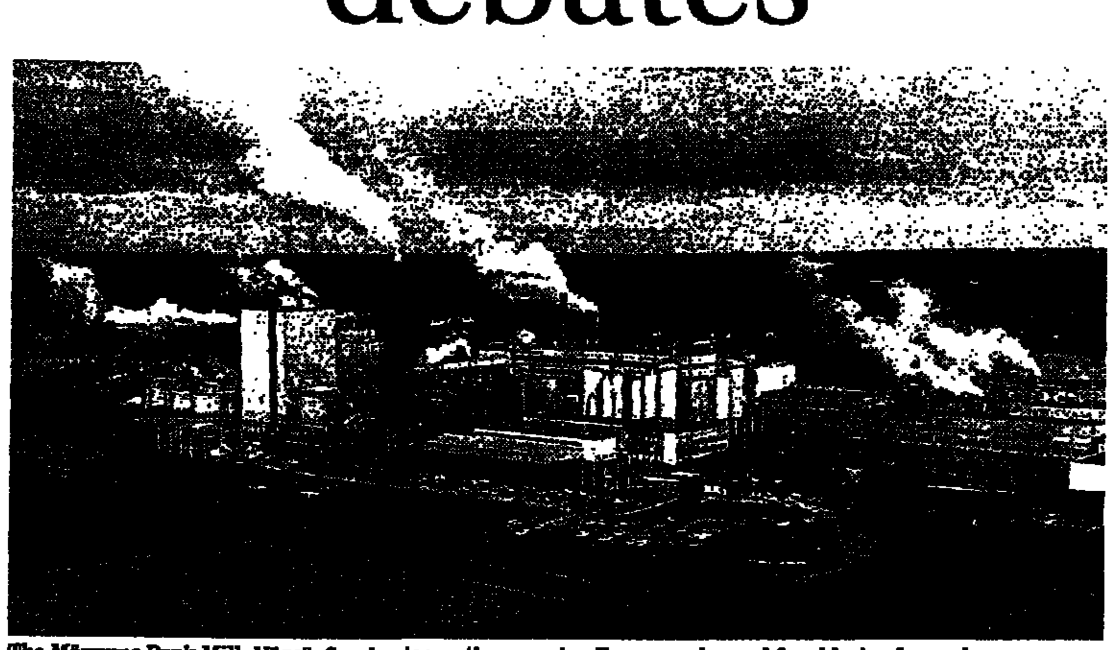
A more fundamental debate centres on whether TCF is any more environmentally-friendly than the ECF (elemental chlorine-free) bleaching process it is replacing. The latter uses chlorine dioxide and is far less damaging to the environment than elemental chlorine which is being rapidly phased out. In modern ECF mills, emissions of chlorine compounds can be as low as 0.3kg-0.4kg per tonne of pulp produced, which is well below the 50kg level common only a few years ago.

A study by a group of Canadian scientists has added spice to the ECF/TCF debate. It has found evidence of fish being damaged by pulp mill effluents, irrespective both of the bleaching process used and whether it carries out any bleaching at all. It concludes there is something toxic in pulp-mill effluent, but that this cannot be attributed to the bleaching plant.

The question is whether such studies will slow growth in TCF demand or merely change the focus of the debate from chlorine dioxide to the wider issue of effluent-free pulping. Christoph Thies, a paper specialist with Greenpeace in Hamburg, is confident the trend towards TCF is irreversible. He gives two reasons for his view. First, increased recycling will create pressure for cleaner input of raw material. Second, he says that chlorine has to be eliminated if pulp mills are to achieve their wider ambition of totally enclosing their water systems so that they discharge no liquid effluent at all. "TCF is only a step on the way to an effluent-free mill," he states.

The view that TCF demand will continue to grow is supported by NLK Consultants, although it notes that this is a European issue and has not yet become an important concern in the US. It believes European demand for TCF pulp will grow from 1.8m tonnes in 1993, a 15 per cent market share, to 3.2m tonnes in 1996, a 25 per cent share.

But its predictions also show a persistent gap between consumption in the German-speaking and Nordic markets and the rest of Europe. It expects 70 per cent of the fine paper consumed in Germany, Austria and Switzerland and the Nordic states to be TCF grade in 1996 against only 10 per cent for the rest of Europe.


The Mörrums Bruk Mill, Växsö, Sweden is meeting growing European demand for chlorine-free pulp

Turning full circle at the power station

Europe's first energy plant fuelled by old tyres has opened in Britain, reports **Tim Burt**

Most vehicles in Britain are not just running on four wheels but on a potential energy resource – tyres – which an innovative power company has begun burning to generate electricity.

The idea of burning tyres raises images of noxious fumes and black smoke, but Elm Energy, a US joint venture, has won permission to open Europe's first power station in Britain, fuelled by Michelins, Goodyears, Pirellis and other makes.

An intensive lobbying campaign by the company has convinced regulators and local authorities not only that drivers' last punctured tyres may be consigned safely to the furnace, but that a stringent recycling system will ensure they will not then inhale the by-products.

Standing outside Elm Energy's newly completed power station in Wolverhampton, which has its formal opening early in November, Anne Evans, the managing director, claims the recycling facility will out-perform other waste-to-energy schemes.

An average tyre, she says, contains the equivalent energy of 12 cu m of natural gas and is second only to oil in British Thermal Units (BTU), the common measure of heat energy produced during incineration.

Following the completion of pre-production tests at the plant, truck loads of old tyres are being fed into five giant furnaces where they will burn at up to 950°C. Elm Energy expects to generate heat energy of 13,500 BTU per pound, compared with 12,000 BTU for coal, 2,500 BTU for household rubbish and 1,500 BTU for food waste.

Burning tyres is hot work and could easily produce the steam to drive a turbine.

Elm Energy's success has rested on citing similar operations in the US where the tyre industry can dispose of its rubbish at one end of a power station and see no harmful gases emerge at the other.

The company – formed by Nipsco, the Indiana utility group, and the Performance Service Corporation of Connecticut – has pioneered a system which it claims will consume 21 per cent of Britain's waste tyres with minimal emissions.

That claim is based on its unique power generation and recycling process.

Under the system, batches of tyres are rammed into furnaces, where all the material is expected to burn so rapidly that almost no carbon gases can form. Split-level hearths in the furnace will, meanwhile, pulsate along a series of steps so that the ash – mostly steel wire – can be fed into hoppers for recycling to the scrap metal industry.

> **Elm Energy convinced regulators and local authorities not only that your last punctured tyre may be consigned safely to the furnace, but that a stringent recycling system ensures you will not inhale the by-products**

Before reaching the next stage, where furnace gases flow around water-filled drums to produce turbine-driving steam, any remaining organic material is incinerated in reburn tunnels fed with combustion air. Having produced enough energy for 30MW of electricity – supplying 25,000 homes – the tyres' job is done.

If the remaining gases were pumped straight into the atmosphere, environmentalists would have justifiable complaint. But Elm Energy says its recycling means that emissions of harmful substances will be less than one-millionth of the World Health Organisation limits.

First, the flue gases are filtered through hundreds of Gore-Tex bags to extract zinc oxide. The company plans to sell this waste to the tyre industry for re-use in new products.

Remaining waste gases flow into a lime reactor which converts harmful sulphur dioxide into calcium sulphite. At the final stage, the sulphite will be filtered through another series of Gore-Tex bags and the residue sold for building materials.

"There will be no black smoke, no environmental problem," predicts Evans.

"If this plant isn't clean enough then you cannot build anything in the UK."

She may be right. But all this technology costs money and the government, determined to encourage alternatives to coal, has underwritten the scheme. Elm Energy's initial contracts with the Non Fossil Fuel Agency, which purchases the power and resells it to Midlands Electricity company, are confidential.

Evans says these contracts would be withdrawn if she revealed their value. All she will admit is that the government has guaranteed the company's short-term contracts, so helping the company to borrow the capital to set up the plant.

More than £48m has been invested in the Wolverhampton plant and Elm Energy is confident of a handsome return.

That income has a double bonus: on the one hand, the government wants to promote waste-to-energy schemes; on the other, the tyre industry is keener to see its tyres go into power generation than landfill sites.

Elm Energy says its operation will be cheaper than other waste-fuelled power schemes because there will not be tonnes of burnt ash to dispose of.

The company is so certain it can provide energy at the right price that it is already planning further plants in Scotland, southern England and continental Europe.

In Wolverhampton, Evans says people have the right attitude: "They're not afraid of tyres."

PEOPLE

Hanson sends Cotton to chair Renison

Hanson is taking a "hands on" approach to Renison Goldfields Consolidated, the quoted Australian mining group in which the Anglo-American conglomerate has a 40 per cent stake and which has a far from sparkling recent financial record. Hanson has persuaded one of its senior directors, Anthony Cotton, to become deputy chairman at Renison for a year before taking over from chairman Max Roberts; he will stay to help with the changeover.

Hanson acquired the Renison stake when it paid £3.9bn for Consolidated Gold Fields in 1989, a purchase that proved far from the bonanza Lord Hanson must have hoped for.

Campbell Anderson, until recently Renison's chief executive, used to say that there were three types of company in Hanson's portfolio – the A companies were core businesses,and not for sale; buyers were actively being sought for C companies; leaving the B companies which were for sale if someone should come along with the right offer. Poor old Renison, he suggested, was on the B list.

Hanson was keen to give the impression yesterday that Renison had now moved to the A list and has "persuaded one of our senior people to take this appointment".

According to an official, Hanson is anxious to increase its presence in Australia and the Asia-Pacific region and Renison might provide some opportunities for that.

Renison, analysts suggest, is an ideal candidate for "Hansonisation". It has been badly hit by the collapse in most commodity prices and recorded net losses for the past two financial years. But there have also been strategic mistakes which have added to the pain.

Hanson's chance to move in emerged because Campbell Anderson, seen as the likely successor to the present chairman, decided instead to move to North Broker Hill Peko, another Australian resources group, as chief executive.

Cotton has been Hanson's deputy chief operating officer UK, responsible for the group's main building products interests. He has been chairman of ARC, Beazer, London Brick, Butterley Brick and, until its recent sale, Ever Ready UK. He has been a director of Renison since 1991 and will continue as a Hanson director.

His move to Sydney has led to two consequential appointments at Hanson. Ross Chiese becomes assistant chief operating officer UK. He has been an associate director of the group since 1990. Andrew Dougal becomes deputy finance director and an associate director.

Adding up at KPMG

The search is on for a new head of the tax discipline at KPMG Peat Marwick, the UK's second largest accountancy firm, following changes in all the senior positions.

Gerry Acher was yesterday announced as the new head of audit and accounting, following the elevation of his predecessor, Michael Fowle, to become head of the firm's south-east practice.

Fowle takes over from Colin Sharman, currently deputy senior partner, who becomes senior partner at the start of next year following the retirement of Jim Butler.

Acher's current role as head of corporate finance is taken on by Neil Lerner, currently head of privatisations. He will probably continue to hold this existing job.

Roger White, currently head of tax, will remain as the senior tax partner, but it is believed there will be a new head of the tax discipline, while White will concentrate more on practice protection. Tim Hayward is remaining head of insolvency.

All the appointments except Sharman's have effect from the start of this month. But that leaves one vacant post from Christmas: deputy senior partner, which Sharman inherited when Bill Morrison retired, and which he will vacate from the start of 1994.

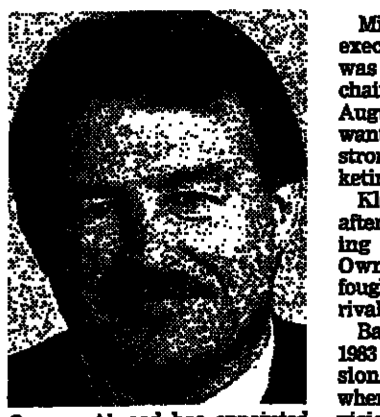
KPMG is a firm with six regional partnerships, but with the south east accounting for 60 per cent of fee income. That has traditionally made head of the south-east the number two position in the firm.

Sharman is still considering whether he will also need a new deputy senior partner, on top of a management team of about eight people to include the heads of the disciplines, and functional areas such as practice protection and risk management.

Acher, 48, who led the firm on bid defence work including Hanson and ICI, BTR and Hawker Siddeley, and Whyte and Mackay and Invergordon, says there is still too much "low-balling" or competitive fee-cutting between accountancy firms. One of his priorities is to give the firm a higher profile in the current audit and accounting debates.

■ Jon Madonna, chairman and chief executive of KPMG Peat Marwick in the US, has also taken on the role of deputy chairman of the firm worldwide. Madonnna's new job, which has just been created, will give him responsibility for Asia/Pacific and Latin America, and for developing international marketing and communications.

Baron for Owners Abroad



Owners Abroad has appointed Francis Baron as chief executive, thus completing the top management reorganisation triggered by the resignation of Howard Klein from both positions in July.

Baron has been chairman and chief executive of Anglo-Saxon Television, a family company he set up last year after he resigned from European TV Networks.

Michael Julien, former chief executive of Storehouse who was appointed non-executive chairman of Owners Abroad in August, is understood to have wanted a chief executive with strong management and marketing skills.

Klein was forced to resign after he issued a profits warning only four months after Owners Abroad narrowly fought off a hostile bid from rival Airtours.

Baron joined W.H. Smith in 1983 to build a television division from scratch. By 1991, when W.H. Smith sold its television interests, the division had become one of the largest satellite operators in the UK.

Baron helped put together an international consortium, which became European Television Networks, to buy the business from W.H. Smith for £50m.

But he resigned last year after differences with the foreign shareholders and set up Anglo-Saxon Television.

■ Mike Jones has been appointed finance director at ALEXON group; he moves from the Merchant Retail group, where he was group finance director. He replaces David Cohen who left on October 1 to join EDS Europe.

In April this year Alexon went through some turmoil as three of its biggest institutional shareholders forced a change of management after some dismal financial results.

Then, Lawrence Snyder stepped down as chairman and Ruth Henderson and Peter Ridsdale resigned as joint chief operating officers.

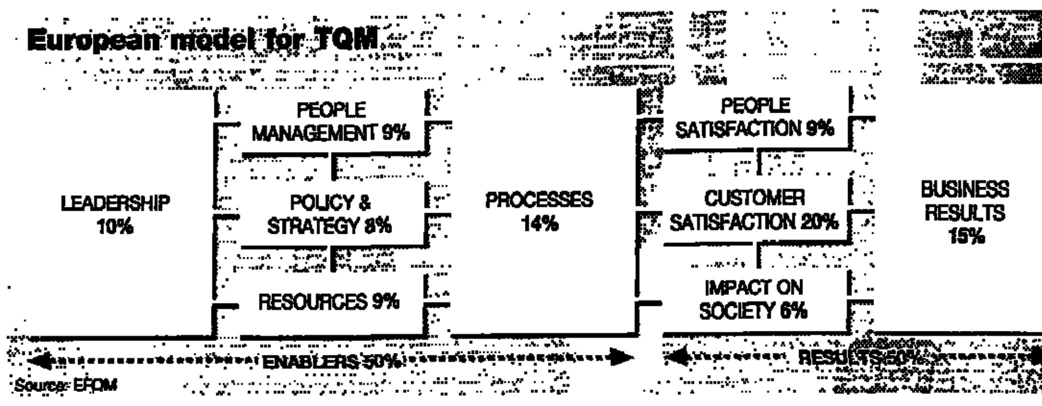
John Sadler, a former finance director of the John Lewis Partnership was appointed non-executive chairman and John Osborn, a former director of Sears, took over as chief executive.

Alexon lost nearly £1m before tax last year and passed its final dividend; it had made an £11.8m profit in the previous year. Its interim figures showed a pre-tax loss of £10.2m, against profits of £1.5m last time round.

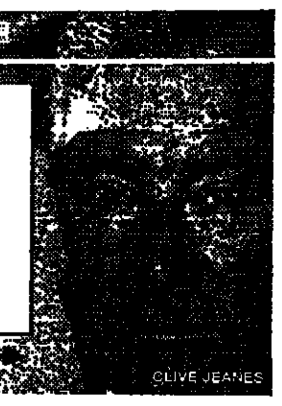
TQM is struggling to make an impact in Europe, says **Tim Dickson**

Quality street cred

European model for TQM



Source: EFQM



CLIVE JEANES

They were handing out the Oscars to Europe's leading "quality" companies last week. But amid all the razzamatazz in Turin no one seemed to notice that this year's winning businesses - like some of last year's - are foreign owned.

The 1993 award conferred by the European Foundation for Quality Management was won by last year's runner up, the European operations of textile products group Milliken - a US company with its headquarters in Georgia. ICL, whose manufacturing and supply division had to settle for second place, is an 80 per cent subsidiary of Fujitsu of Japan. Ranx Xerox, which was the overall victor in 1992, the first year the Award was given, is a hybrid, 50 per cent controlled by the US Xerox Corporation.

The non-European parentage of all three companies is too much of a coincidence to let pass. At the very least it reinforces the view that Total Quality Management - the addictive religion of the quality movement - remains better understood and more widely accepted in North America (where it was invented) and in Japan (where it was first properly applied).

Nearly all the attendees at last week's Quality Forum organised by the EFQM, which culminated in the prize-giving ceremony in Turin, were converts. The challenge they face is how to spread the word beyond the tiny elite of mostly large companies which practice what they preach, and how to reinvigorate a message which may be losing its force.

At its baldest, TQM means applying quality right across an organisation - to delivery systems, administration and customers as well as to a product or service - in the quest for competitive advantage. TQM reached Europe in the early to mid-1980s and has been as durable as any recent management idea, although it has encountered considerable scepticism in the market place.

For some it was an attractively simple concept, which has now been needlessly overloaded with jargon and used as a meaningless "catch all" for other management nostrums. Consultancy firms - always on the look out for new ways to sell their services - have contributed to a feeling that TQM has been superseded by concepts such as Just In Time manufacturing or Business Process Re-engineering.

The fuss over European-wide certification - notably complaints by small and medium-sized suppliers about the time and money spent on acquiring the quality standard ISO 9000 to appease their more demanding customers - has also given TQM a bad name. On top of this, surveys have shown that TQM programmes have too often failed to deliver the sort of benefits anticipated by managers. The correlation between TQM and financial performance is particularly hard to prove, though one recently demonstrated that out of a sample of 29 companies running formal programmes, 70 per cent did better than the average in their sectors.

Mike Gallagher, manager of the European quality award, acknowledges the confusion but argues that TQM has highlighted four "timeless" ideas "which are constantly of importance to the top team". These are the importance of the customer; the need to involve everyone in the company; the concept of process management (every business activity should be viewed as a process); and the goal of continuous improvement.

Business Process Re-engineering, he argues, is "really just looking at process management starting with first principles. It does not provide all the answers - what about employee involvement or customers, for instance?"

Besides its annual prizes and award, EFQM's mission is to stimulate quality activity as widely as possible, notably through the application of its self-assessment model*. This is based on the simple premise that processes are the means by which the organisation harnesses and releases the talents of its people to produce results.

As the illustration demonstrates, customer satisfaction, people (employee) satisfaction and impact on society are achieved through a company's leadership driving its policy and strategy, people management, resources and processes. This ultimately leads to excellence in business results. Each of the nine elements is a criterion which can be used to assess the organisation's progress towards TQM and thereafter to adopt improvement strategies. The percentages shown are those used for the purpose of the EFQM award, but can be varied depending on the nature of the company concerned.

Besides its use as a self-improvement tool, Gallagher believes that the EFQM self-assessment process offers a sound basis for strategic direction and priority setting.

Naturally enough, strong endorsement comes from ICL and Milliken Europe. The latter's chairman and managing director, Clive Jeanes, adds that the assessment process for the award was "a great learning tool" and among other things prompted him to institute bi-monthly meetings of top executives from the company's four European businesses.

Jeanes says Milliken Europe first adopted a planned approach to quality in 1981. "We have always believed in buying the best technology, but I remember being struck how the Japanese in those days were more efficient than us using machines that were 20 years older."

By 1985, the company noted that measuring performance was having a bottom line impact, but it still had not asked its customers what they wanted. "When we did we were amazed to find that after product quality, on-time delivery was the next most important item. At that stage, however, only 75 per cent were arriving when we said they would."

Jeanes says Milliken's TQM took off in 1987 and 1988. Before visiting Japan in 1991 - when 24 of the company's executives saw 10 companies in 10 days - he read six textbooks on the subject.

"With a quality programme you add to your costs in the very short term, you recognise problems you didn't know about. But the payback over two to three years is tremendous."

**Brochures on self assessment and applications for the 1994 award (deadline March 18th) from EFQM, Avenue des Pleiades 19, 1200 Brussels.*

Navigators without a map or compass

UK companies are failing to look to the future with a sense of strategy, says **Christopher Lorenz**

Many British companies, sizeable as well as small, are trying to navigate their way to competitive survival in the dark, without either a map or a compass. Almost a third look no further forward than one-year budgets, and more than half have no long-term goals.

This bleak picture emerges from a study of the way that over 1,100 UK companies of all shapes and sizes think, plan and act strategically - or fail to do so.

But this picture may be just the tip of a miserable iceberg. The study, called "Unplanned and Unprepared", suggests that, on top of the 30 per cent which have no strategy, up to another 40 per cent plan inadequately.

The study was conducted by a thriving consultancy called Strategy for Success, formed out of one of the few fee-earning parts of the National Economic Development Office, which was wound up at the end of last year.

The study makes instructive reading, even if its terminology owes too much to Nedo's belief in formal planning and too little to the new business orthodoxy of what academics call "emergent strategies": those which emerge from entrepreneurial action, albeit within a loose strategic framework.

This view sees "strategy" and "planning" as two separate animals: strategy as a sense of direction, and planning as the detailed road map which one uses to get there.

The "planning" frame of reference causes the authors of the study to be a little over-ready to suggest that three-year formal plans are too short for many companies' best interests, when in many industries - consumer and office electronics, for instance - this is the furthest that things can be plotted in any detail.

Of the 1,100 companies surveyed, no fewer than 15 with revenues of over £500m put themselves in the category of having "unclear goals", or none at all. A further five were contained in the 10 per cent of the sample which had only short-term goals. Making only short-term plans may be excusable, even sensible, but having only short-term goals, or none at all, is suicidal. As one respondent put it, doing so is tantamount to being "adrift and rudderless in a turbulent sea".

Another problem which emerges from the survey is the failure of some companies to realise that planning can - and should - be much more than just a corporate activity directed at acquisitions and marketing: plans, or at least goals and strategies, should be formulated at every level of the organisation and for every activity.

Commenting on the results of the study, Brian Weekes, the consultancy's managing director, says some companies "have won in the UK third division without taking a strategic view, and therefore think they'll survive in the international marketplace".

But other companies recognise the problem: "They know they've been jammed into a short-term timeframe - often by their own top management - and they know they must get out of it," says Weekes. For sizeable companies he cites two particular impediments to long-term thinking or planning, depending on the type of company.

In private companies, the main problem is often the owner-manager's refusal to allow strategic issues to be thrashed out properly because of the obvious need either for large injections of capital or for radical changes in the nature of the business - or for both.

For subsidiaries of public companies, he says a frequent problem is that their freedom to think and act strategically is constrained by their lack of complete control over key activities such as marketing or manufacturing; these are carried out by the parent company surprisingly often, Weekes says.

A third common barrier to strategic thinking and action is the lack of cross-functional collaboration, especially between marketing, engineering and manufacturing.

Unplanned and Unprepared. From Strategy for Success. £10.50. Fax (UK) 071-833 9116.

Improving business with the community's help

Involvement in the community through training, economic regeneration, education and equal opportunities policies can improve corporate performance, according to a new survey of top business executives and other opinion formers.

Companies with active community affairs programmes are likely to have a more committed and happy workforce, the survey found. There are also benefits in public image and customer loyalty.

Over 80 per cent of those polled said that a reputation for being socially responsive and responsible is becoming a competitive advantage.

The findings of the survey were presented last night to the annual meeting of the Per Cent Club in London, a group of large companies which devote a proportion of their profits to community activities.

Sponsored by six, blue-chip companies, with well-developed community involvement programmes, the survey was based on interviews with 700 opinion leaders around the country, including more than 120 top executives from both industry and the City of London.

The survey will offer some reassurance to business leaders who must justify every expense in the current adverse climate. However, it also suggests ways in which companies can maximise the returns from their community involvement:

- City investors should be informed of the rationale for community involvement programmes - at present, they are often unconvinced of the commercial benefits.
- Senior managers also need more convincing of the value of community programmes - they are often less clear about their objectives.
- Local managers should be given greater responsibility for community investment programmes, as this will result in more effective links with community organisations.
- New forms of partnership are needed with national charities to support the aims of both businesses and charities through strategies such as cause-related marketing.

Further information from Opinion Leader Research, 30 Grays Inn Road, London WC1X 8HR. Tel: 071 242 2222

John Willman

Television/**Patrica Morison**

Deadly fanaticisms

Because many Hassidic Jews regard television as impious, they will not have seen the play that has caused the controversy, *Wall of Silence* (BBC1, Sunday).

Comedy writers Laurence Marks and Maurice Gran (both Jewish) set a murder mystery in the strictly orthodox, mysterious Hassidic community in north London, which sounded promising and was mysterious enough. But, by the end I still had no idea how the estate-agent with the gentile wife in Bristol fitted in, nor how the lady with a fractured skull underneath her ultra-orthodox wig came to be sitting on a train.

The greater mystery was how such poppycock ever achieved the *Screen One* slot. Marks and Gran's comedy background showed in wooden dialogue, preposterous characters and huge sign-posts to tell viewers what is going to happen next. The police chief agrees to lend his car to a colleague. "Have you seen the way he treats his car, gov?", cautions a minion. Surprise, surprise: the hero, PC Mullens (Bill Paterson) writes it off in the next scene.

The story starts when the corpse of a kosher butcher is pulled from a canal in his Volvo, a swastika daubed on the bonnet. But this is no racial murder, as PC Mullens realises when he is informed, implausibly late in the day, that the corpse had been stabbed through the eyes.

Mullins duly expounds more customs of the Hassidim. The butcher must have been a *moyser*, or informant, to killed by this grisly ritual. On Radio 4's *Sunday* programme, orthodox Jews expressed fears (a touch unrealistic to my mind) that viewers might link eye-stabbing to the ancient libel about Jews ritually murdering Christian children and incite anti-semitism.

According to The Jewish Chronicle, the upshot was that PC Mullens's spiel was altered to include the qualifying comments about eye-stabbing being entirely alien to British Jewry. However, a closer look suggests that this was a strangely grudging and partial appeasement.

The *Encyclopaedia Judaica*'s discussion of legal penalties for *moysers* – the source, I would guess, for Marks and Gran – gives no record of anyone ever being treated thus, although some European rabbi seems to have favoured mutilation as a lesser punishment than excommunication.

So why did Gran and Marks get it wrong? It is legitimate to write plays about Hassidim or any other religious group. But the odder and more alien the group appears to the rest of society, the more it behoves a playwright to strive to be accurate.

Assignment: The Price of Gold (BBC 2, Tuesday) spelled out something I should have known, the vital link between a decade of gold prospecting in Brazil and the destruction of the rain forest. Julian Pettifer's interesting report painted a vivid picture of the frontier mentality of Amazon mining towns.

The gold prospectors are as one would expect – tough, uneducated men who have little faith that they will make old bones. A bullet, a mining accident, or malaria will probably get them first. Very low down their list of anxieties, if anywhere at all, are the long-term health risks of using mercury.

Mercury is banned, but it is used in large quantities. It is mixed with the sludge dredged from the river because it bonds to the gold particles. Some of this mercury is released into the river and a great deal more is burnt off with blow-lamps. This vapor mixes with ash from burning the forests. The result is high levels of mercury in the atmosphere above the Amazon and, in some unspecified circumstances, methyl mercury forming in the rivers. This deadly substance passes up the food chain and ends up in fish eaten by the riverside dwellers.

How serious are the health-risks is as yet unclear. Scientists are keener to analyse satellite data than to brave the Amazon to study its poisoned inhabitants. However, experts spoke of a "time-bomb" which will inevitably go off, even if the gold-prospectors can be persuaded to burn off mercury in retorts, which is cheaper as well as safe.

Minister for the Amazon and Environment, Mr Rubens Rimpero referred to levels of metal mercury being higher than those in an industrial accident at Minemata in Japan. Pettifer reminded us that fish contaminated with methyl mercury caused "hundreds" of deaths and led to "thousands" of children being born with disabilities. Momentarily, my willingness to follow Mr Pettifer dipped. The consequences of Minemata must be known with more precision. Why are documentary-makers so often cavalier with statistics?

The statistics of the Waco siege are clear enough; 84 corpses, 20 of them children. Anything but clear, as we were reminded by *Panorama; Sinful Messiah* (BBC 1, Monday) is whether the FBI were justified in mounting the assault on the Branch Davidian headquarters. Fresh material given to *Panorama*, a taped conversation between cult-leader David Koresh and his lawyer late in the siege, suggests that Koresh did not want mass-suicide.

Koresh explained that he was delaying until he had finished writing the revelations of the Twelfth Seal. This the FBI dismissed as mere bluff, so Koresh's deadline was literally that. However, the first chapters of the book were found on the word-processor. Which will be the lucky publisher who lays hands on the Sinful Messiah's final revelations?

Timewatch; A Hidden History (BBC 2, 8.00) told the story of another kind of deadly fanaticism which led ten Republicans to starve themselves to death in the Maze Prison hunger strike of 1981. Survivors talked about the experience, one of them describing the sensation as being like having one's brain rubbed with a grater.

Timothy Busfield, Bill Paterson and Warren Mitchel in 'Wall of Silence'

This well-researched documentary aired allegations that despite the Thatcher government's claims not to have struck any deal with the Republican prisoners, negotiations were conducted throughout the strike and concessions were quietly made after it ended.

The programme's weakness was to have left the attitude of the Catholic Church so unclear, especially as Maze chaplain Father Dennis Faul played a prominent part in the drama and was interviewed at some length. What seemed to emerge was that fasting in protest was permissible – indeed, as I recall, St Patrick was said to have fasted against an uncooperative king.

However, the hierarchy's attitude to the hunger-strike changed when it was deemed that the protestors intended to die. Once across this rather fine line, they would presumably have committed suicide, a mortal sin for Catholics. If this was indeed the case, the fact that papal emissaries brought Bobby Sands a golden crucifix before he died needed some explanation.

Recital/**Richard Fairman**

Christa Ludwig's farewell tour

The generation of singers that burst on to the stage after the war is gradually taking its final bow. Earlier this year Dietrich Fischer-Dieskau retired with unexpected suddenness, leaving probably the last of his long-serving German contemporaries to continue progress on her own, more patiently orchestrated tour of farewells.

It is extraordinary to think that Christa Ludwig made her professional debut as long ago as 1946. Since then she has been at the top of her profession, a warm, glowing, Germanic mezzo-soprano with power enough to conquer some of the summits of the operatic repertoire. However ambitious she was, stretching up to Beethoven's soprano Leonore, embracing Wagnerian heroines, the voice never suggested she had gone too far.

Farewells have already been said in Salzburg, New York and Paris. A pair of recitals at the Wigmore Hall and a concert with the Philharmonia next February constitute her final London appearances. A tear was in the singer's eye as she finished her encore at the second of the recitals on Monday, but the evening seemed more a cause for rejoicing that she can still sing so much so well, some passing problems with intonation apart.

The programme was illustrated with the leaflet advertising her debut recital in London. That was at the Wigmore Hall in 1957 – interesting to note that she was already described as "the great mezzo-soprano", although she had only recently made her first major recordings. Clearly the word had got around. Two of the songs that she sang then were in Monday's selection, and were among her most successful: Mahler's "Rheinlegendchen" and "Ich bin der Welt abhanden gekommen".

The latter exemplifies the very best of Ludwig. When she sings that she "rests in a quiet realm", music and singer seem spiritually at one. The song's expansive, late romantic vocal lines, unfolded as though time is of no importance, could not be better suited to this voice. The sound, always at its most beautiful in the lower middle, simply pours out, relaxed, free from tension, expressive of deep-seated Mahlerian calm.

Part of that is achieved because she does not try to seize upon the words in the intense style of a Schwarzkopf or Fischer-Dieskau. Ludwig's way has been simpler and to that extent less memorable in what she has had to say than they were. But this was not the occasion to complain. By the time Charles Spencer allowed the final notes of Strauss's "Morgen" to die away, the singer's unforced eloquence had unarguably made her case for her – a moving end to a reign of nearly half a century.

Wexford Festival/**David Murray**

Tchaikovsky's 'Cherevichki'

If some of us knew anything about this obscure Tchaikovsky opera, it was probably just that it was called something like "The Tsarina's Slippers". Even that turns out to be wrong: the footgear at stake is elegant travelling boots. On hearing that Vakula the Smith, whose mother is the sexy old witch Solokha, needs to get hold of those *cherevichki* to win the hand of Oksana, however, ENO regulars can guess that the libretto was drawn from the same Gogol story as Rimsky-Korsakov's *Christmas* (Gogol's title). The latter was premiered ten years later, in 1895.

"Vakula the Smith" was Tchaikovsky's name for his first version (1874); the new label came with the definitive, much-revised score. That is what Francesca Zambello has staged for Wexford (in the original language), with admirable resource, plenty of colour, seven Russian and Ukrainian leads, a Russian conductor, and what seems to be half of the town's kids as little demons, wood sprites, village children and court pages. Bruno Schwegl's designs, wittily economical, conjure up a fine, wintry fairytale nimbus.

Not only Miss Zambello's clever imagination keeps the opera bubbling, but also Alexander Anissimov's light, confident hand with the music. If Tchaikovsky's score is less brightly enamelled than Rimsky's, it is also more developed, more humanly expressive and often earthier too. The comedy reveals a more sympathetic ear for folk accents – indeed, the composer rarely sounds as close-to-the-ground Russian as he does here. The visiting Slav singers make the most of that. Especially in the grossly Gogolian scene where Solokha is beset by a succession of grizzled lechers: in Rimsky's opera that is only a cartoon, in Tchaikovsky's a lusty tour-de-force.

Roman Tsymbala's husky hero and Marina Levitt's fresh heroine, lyrical and wilful; Valentina Cherbinina's ripely irresistible witch-mother, with rolling eye and a hairdo with curved horns, and Leonid Boldin's lubricious old Devil; Vladimir Matorin's stentorian bass for Oksana's father, a patriarchal ram, and Wjacheslav Weinorovski and Anatoly Lochak as Schoolmaster and His Excellency Potemkin (notably refined singing in his *couplets*) – all get their teeth firmly into their roles. Keith Latham's Mayor lives up to their enthusiastic style.

By comparison the orchestra sounded slightly backward, and Anissimov too polite about following his singers; stage and pit occasionally slipped out of synch. But one should not look this gift horse in the mouth: with all its trappings, quite opulent by Wexford standards, it prances and curvets to splendid effect.

Sponsored by Goodbody Stockbrokers & AIB Capital Markets. Festival continues until October 31

Theatre/**Malcolm Rutherford**

Looking Through a Glass Onion

There is a mildly biblical sound to *Looking Through a Glass Onion*, the new entertainment at the Criterion. "Glass Onion" is the name of a song by the late John Lennon; the looking through bit reminds one of St Paul, darkly. The sub-title is more accurate: *John Lennon in Word and Music*.

The show is probably for addicts: to others it may seem a shade dull. Lennon is not nearly as inspired a musician as his one-time Beatles colleague, Paul McCartney. Nevertheless, he has a good story to tell. As the Beatles broke up, he went off with Yoko Ono to do his own thing. Someone else who did their own thing shot him dead in the street in New York.

I admire the discretion of the production. There are the sounds of a couple of gun shots at the beginning, but we do not move to the final killing. This is largely a one-man show, written and performed by John Waters as Lennon. Waters simply tells the tale and sings the songs. "We didn't *come* from Liverpool," he says of the early Beatles, "we were just there." When they took off, "every day was like the world cup final" (which England won when the Beatles were at their peak).

Lennon admits the musical superiority of McCartney and the first act ends on "Strawberry Fields" with the group still together. Then Lennon broke away, Yoko Ono, he claims not even knowing initially who he was. The pair of them became part of the peace movement of the early 1970s. According to the Waters version, the Anglo-Saxon press attacked Lennon because Yoko was a "Nip".

The second half, however, is mainly songs, with some very effective lighting by Peter Neufeld and the musical direction and keyboards by Stewart D'Arietta. It struck me that there was one very clever off-rhyme; "working placebo" with "working class ego", but the linguistic acoustics are not perfect and I may have misheard it. Yet the piece did remind me of another off-rhyme, at least in modern English: "Since 'tis not to be had at home, He'll travel for a martyrdom." I've changed the gender, but that's the sort of thing *Glass Onion* is meant to be about: from Merseyside to London to the US. The religious touch in the title is not accidental.

Alastair Muir

John Waters

Criterion Theatre. (071) 839 4488

Jazz/**Garry Booth**

Sonny's flights of fancy

Sonny Rollins, "saxophone colossus", is generally regarded as one of the most important (surviving) figures in modern jazz. With a considered technique and driven by awesome stamina and dexterity, the 64 year old New Yorker has set the standard for saxophone the improvisors for the last 40 years.

An annual visitor to Europe, he is fussy about the venues he plays and on Monday he brought the regular band and his rag bag of battered old tunes to the Theatre Royal in Drury Lane. For the committed Rollins fans this will have been a source of great relief and joy: since the 1970s the Rollins repertoire has consisted of short but strong melodies which provide recognisable reference points for the saxophonist's flights of fancy. The band's role is strictly a as reliable support crew which provides some mid-air refuelling for the boss between aerobatics.

So it was on Monday. With a familiar flight plan comprising old favourites such as "Duke of Iron", "Prelude to a Kiss", and "Long Ago and Faraway", Rollins roared matter-of-factly over his musical landscape like a veteran flying circus pilot. Breathtaking time changes like stall turns are executed effortlessly; now he loops around a fast moving melody with deadly grace, later ambushing the rhythm from behind before finally turning genial barrel rolls through a tin pan alley tune like "Tennessee Waltz".

The band looks skyward indulgently. Jerome Harris and Bob Cranshaw on electric guitar and bass were solid and slavish while Cliff Anderson's trombone supplied buoyant fat notes to fill where Rollins took a breather. A new and welcome addition to the band came in the unlikely shape of percussionist Victor See Yuan whose Confucian appearance belied a splendidly kinetic way with congas and various shakers.

But if Rollins retains all the old firepower as well as the chocs-away trickery in his display, the repertoire is beginning to sound all too familiar for a performer whose appeal has always been strongest heard live. The corny, jangly C & W tinged "Tennessee Waltz" and his calypso trademark "Don't Stop the Carnival" brought loud cheers of approval from the full house, but that did not entirely extinguish the strong feeling of *déjà vu*.

INTERNATIONAL

ARTS GUIDE

■ BONN

Oper Tomorrow and next Wed: Valery Panov's production of Prokofiev's ballet Romeo and Juliet. Fri and next Tues: Cav and Pag. Sat: Ken Russell's production of Salome. Sun: Otello with Vladimir Atlantov and Renato Bruson (0228-773667)

■ BORDEAUX

Palais des Sports Tonight, tomorrow: Alain Lombard conducts Orchestre National Bordeaux Aquitaine in works by Bartok, Dvorak, Ravel and Roussel, cello soloist Etienne Péclard (5648 5854)
Grand Théâtre Tonight: Ballet-Théâtre de Bordeaux presents two choreographies by Paolo Bortoluzzi, music by Vivaldi and Richard Strauss. Tomorrow: Balanchine programme (5648 5854)

■ COLOGNE

Opernhaus Tonight, Fri, Sun: L'incoronazione di Poppea with Patricia Schuman, Kathleen Kuhlmann and Curtis Rayam. Tomorrow, Sat: Billy Budd with Boje Skovhus and Victor Braun. Next Tues and Wed: TanzForum triple bill, choreography by Jochen Ulrich. Next Thurs: revival of Tosca. Oct 29: Ann Murray song recital (0221-221 8400)

■ COPENHAGEN

The main event this week at the Royal Theatre is the first night on Sat of a new production of Peter Grimes, conducted by Alexander Gibson, staged by David Radok, with Stig Fogh Andersen, Tina Kiberg and Norman Bailey (repeated Oct 25, 27, 30, Nov 1, 5, 11). Repertory includes Carmen and a mixed bill of choreographies by Balanchine, Lander and Laerkesen (tel 3314 1002 fax 3312 3692)

■ FRANKFURT

Oper Tonight, Sun, next Wed: Sylvain Cambreling conducts Peter Mussbach's new production of Wozzeck, with Dale Duesing and Kristine Ciesinski. Sat: Il barbiere di Siviglia. Mon: revival of Cosi fan tutte (069-236061)
Alte Oper Tonight: Enoch zu Guttenberg conducts Munich Bach Collegium in Mozart opera overtures and arias. Sat: Vassili Sinaiski conducts Moscow Philharmonic Orchestra in works by Rakhmaninov and Tchaikovsky, with piano soloist Lilya Zilberstein. Mon: Vladimir Feltsman plays Beethoven piano sonatas. Tues: Andrei Gavrilov plays Bach (069-1340 400)
Jahrhunderthalle Hoechst Fri, Sat, Sun: Alvin Ailey American Dance Theatre. Tues: The Hollies (069-3601 240)

■ GOTHENBURG

Konserthuset Tonight: Hélène Grimaud plays piano works by Brahms. Tomorrow and Fri: Grimaud plays Rakhmaninov's Second Piano Concerto in a Gothenburg Symphony Orchestra programme conducted by neeme Järvi, also featuring Stenhammar's Second Symphony (031-167000)
Stora Teatern Tonight, Sat: Orpheus in the Underworld. Tomorrow, Fri, Sun, Tues: Robert North's new ballet The Russian Story, music by Tchaikovsky and Shostakovich. Oct 30: first night of new production of Rigoletto (031-131300/031-136500)

■ HAMBURG

Staatsoper Tonight, Sun (also Oct 27, 31): Gerd Albrecht conducts Günter Krämer's new production of Götterdämmerung, with Gabriele Schnaut, Siegfried Jerusalem, Matti Salminen and Günter von Kannen. Tomorrow: Schnittke's ballet Peer Gynt, choreographed by John Neumeier. Fri: Il trovatore with Julia Varady and Lando Bartolini. Sat: Die Zauberflöte. Next Tues: choreographies by Lubovich, Ek and Neumeier (040-351721)

■ LYON

Maguy Marin's production of Coppelia is revived tonight at Opéra de Lyon, with nine further performances over the next three weeks. The other production this month is Louis Erlo's Offenbach adaptation, Des Contes d'Hoffmann, which can be seen on Fri, next Tues, Thurs and Sun. Both productions are conducted by Kent Nagano (7200 4545)

■ MUNICH

EUROPAMUSICALE
Throughout October, orchestras from 31 European countries are giving daily concerts as part of the festival to show Europe's cultural diversity. Most take place at Gasteig. Tonight: James Conlon conducts Orchestre National de France in works by Florent Schmitt, Poulenc, Debussy and Ravel, with organ soloist Michel Bouvard. Tomorrow in Prinzregententheater: Athens State Orchestra. Fri in Prinzregententheater: Leif Segerstam conducts Danish Radio Symphony Orchestra in works by Per Norgaard (b1923), Sibelius and Nielsen, with violin soloist Joshua Bell. Sat in Prinzregententheater: Lithuanian National Philharmonic Orchestra. Sun: Neeme Järvi conducts Gothenburg Symphony Orchestra in Nielsen and Stenhammar. Mon: Peter Maxwell Davies conducts Royal Philharmonic Orchestra in Holst, Maxwell Davies and Vaughan Williams, violin soloist György Pauk. Tues: Antoni Wit conducts Polish Radio Symphony Orchestra in works by Wojciech Kilar (b1932), Wieniawski and Szymanowski. Oct 28: Vienna Philharmonic. Oct 31: closing gala (089-4809 8614)

BAVARIAN STATE OPERA
Staatsoper Tonight, Fri, Sun: Michael Boder conducts August Everding's production of Penderecki's 1991 opera buffa Ubu Rex, with Robert Tear and Doris Soffel. Sat and next Tues: La traviata with Tiziana Fabbriccini (Sat) and Julia Varady (Tues). Next Wed: La boheme with Miriam Gauci and Thomas Hampson (089-221316)

OTHER EVENTS
Martin Turnovsky conducts Prague Symphony Orchestra in works by Brahms, Mozart and Beethoven on Sat at Gasteig, with violin soloist Vadim Repin (089-4809 8614). Deutsches Theater has a New York Harlem Theatre production of Porgy and Bess, daily except Mon (089-5523 4360). A new production of Thomas Bernhard's play Am Ziel, directed by Martin Meltke, opens at the Kammerspiele on Sat (089-2372 1328). Repertory at Residenztheater includes new productions of Shakespeare's The Taming of the Shrew, Ibsen's The Wild Duck and Chekhov's The Cherry Orchard (089-225754)

■ OSLO

Konserthus Tomorrow: Jerzy Semkow conducts Oslo Philharmonic Orchestra in works by Stravinsky, Mozart and Tchaikovsky, with piano soloist Christian Zacharias (2283 3200)

■ STOCKHOLM

Royal Opera Tonight: Cav and Pag. Tomorrow, Sat afternoon, next Mon and Tues: Beryl Grey's production of Sleeping Beauty (tickets 08-248240 information 08-203515)
Konserthuset Tonight, tomorrow: Heinz Wallberg conducts Royal Stockholm Philharmonic Orchestra in Bruckner's Fifth Symphony. Fri: Julian Bream guitar recital. Nov 7: Itzhak Perlman (tickets 08-102110 information 08-212520)
Berwaldhallen Fri: Gary Bertini conducts Swedish Radio Symphony Orchestra in Beethoven's Violin Concerto (Gil Shaham) and Third Symphony (08-784 1800)

■ STRASBOURG

Palais de la Musique Mon and Tues: Jörg-Peter Weigle conducts Dresden Philharmonic Orchestra in works by Mozart and Bruckner, with piano soloist Mikhail Rudy (8852 1845)
Théâtre Municipal Tonight, Fri, Sun afternoon (also Nov 2, 4, 6, 8): Friedrich Haider conducts Tobias Richter's new Opéra du Rhin production of Rigoletto (8875 4823)

■ STUTTGART

Staatstheater Tomorrow, next Thurs: Otello with Ermanno Mauro. Sat: Stuttgart Ballet in choreographies by Scholz and Zanella (0711-221795)
Liederhalle Sun, Mon: Hans Zender, whose new opera Don Quijote de la Mancha premiered at Staatstheater earlier this month, conducts orchestral works by Mendelssohn and Zender

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

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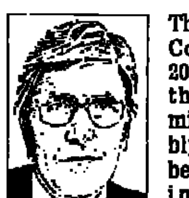
MONDAY TO THURSDAY
Super Channel: European Business Today 0730; 2230
Monday Super Channel: West of Moscow 1230.
Super Channel: Financial Times Reports 0630
Wednesday Super Channel: Financial Times Reports 2130
Thursday Sky News: Financial Times Reports 2030; 0130
Friday Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0930
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

Edward Mortimer

Can-do versus no-do

Europe must act and not just sneer at US foreign policy failures



The Trilateral Commission, 20 years old this year, might plausibly claim to be the most influential non-governmental, non-profit-making organisation in the world. It brings together members of the political and business elites from north America, Europe and Japan. Its former members now in public service include President Bill Clinton and 20 senior figures in his administration; Mr Tsutomu Hata, the new Japanese foreign minister; and Mr Johan Jorgen Holst, the Norwegian foreign minister who played a vital role in brokering the recent Middle East peace accord. As networks go, that takes some beating.

The commission's three current chairmen – Count Otto Lambsdorff (former German economy minister), Mr Paul Volcker (former chairman of the US Federal Reserve) and Mr Akio Morita (founder of Sony) – are not just names on a letterhead. All three were present last weekend, and each made a personal report on the state of the economy in his region, at the commission's meeting in Barcelona – which was not even the annual plenary meeting, only a mid-term European regional one.

That meant it was essentially a gathering of the west European elite. (No central or east Europeans – not even a Greek or Turk.) One session was devoted to the host country, Spain, and another to the "Mediterranean dialogue" between Europe and the Arab world. But the short breakfast meeting on Russia was, to me, the most revealing – not so much about Russia as about western Europe. It was not very encouraging.

Mr Sergio Romano, who served as Italian ambassador in Moscow during the *perestroika* years, gave a short talk. His main concern was to pour cold water on the notion that President Boris Yeltsin's recent victory over parliament should be seen as a victory for either democracy or the market economy.

There would, he suggested, be "little democracy in Russia's near future". The diarchy of president and parliament would be replaced by "a diarchy of centre and periphery". There might be "more room for some economic measures along the lines originally tried by Gaidar [first deputy prime minister]", but the army would be stronger and "if Russia is strong the countries of the Caucasus and central Asia will inevitably rally, as in the past, under Russian power" – a development which he personally considered "very positive".

In the discussion that followed some details of this analysis were questioned but the general tone of elegant scepticism, mixed with nostalgia for the simple certainties of great power politics, was maintained – until Mr Richard Gardner, newly arrived US ambassador to Spain and one of the very few non-Europeans in the room, intervened. He alone pointed out that what happens in Russia is hardly a matter of indifference to the rest of the world and that, while no one can be sure of success, there are things that the west can and should be doing about it. In fact, he produced six:

European security no longer has the overriding urgency it once had for US policy-makers

- Head off nuclear proliferation, by holding former Soviet republics to, and helping them implement, their commitments under the strategic arms reduction treaties.
- Secure and where necessary decommission unsafe nuclear energy plants.
- Help Russia develop its oil and gas industries.
- Give technical assistance, bypassing central government as far as possible, in the skills a market economy requires.
- Set up an "enterprise fund" to finance privatisation and military conversion schemes, and help launch joint ventures.
- Give "political technical assistance" with such things as elections, rule of law and an independent judiciary.

This was back-of-the-envelope stuff, neither definitive nor original. In all the areas mentioned western efforts are already being made, though perhaps not enough, and none of them is simple to implement in the chaotic circumstances now prevailing. Mr Gardner was not claiming to have all the answers, but his tone was refreshing. Here spoke the representative of a power which has not given up – which still believes there are things that need doing in the world, and that something can be done.

Contrast that with the reported remarks of Mr Jacques Delors, president of the European Commission, who that same day was telling Radio Luxembourg that the European Community was "drifting towards a free-trade zone, that is to say an English-style Europe", which in 15 years would lead to a break-up. Clearly Euro-pessimism is back with a vengeance, while the US, with a new administration, is at least trying to identify global problems and propose solutions to them.

Yet at the same time the remarks made over the weekend by Mr Clinton and his secretary of state, Warren Christopher, make it clear that the US now has limited resources, and limited patience, to devote to European problems. The cold war is over, and European security no longer has the overriding urgency it once had, either for US policy-makers or, still less, for the US public.

To sneer at the blunders of the Clinton administration, as it feels its way towards a foreign policy in a new and anarchic world, is easy enough. But it will not do Europe any good. What Europe needs is a dose of that much-derided "can do" spirit that courses through American veins. If west Europeans would only come together in that spirit, rather than haggling endlessly over the "national" interests of producer lobbies, they could remind themselves that the breakdown of communism is an opportunity and a challenge, as well as a threat. Who knows, they might even work out a common strategy for dealing with it.

Up the pole at the town hall

A review of UK local government could cost voters money - and the Tories votes, says **John Authers**

Local government is leading the government back into political trouble, only months after the death of the poll tax.

This time the issue is local government reorganisation. Plans to streamline local authorities in England to save on administration costs and improve accountability threaten to be both costly and unpopular with voters.

Launched enthusiastically two years ago by Mr Michael Heseltine, then environment secretary, the objective of the independent Local Government Commission was to do away with the two-tier system of district and county councils which cover most of England outside the conurbations. Mr Heseltine thought local government would be cheaper, and easier for voters to understand, if all local services were provided by a single, all-purpose unitary authority.

Yet far from saving money, it now appears sweeping reorganisation along lines envisaged by Mr Heseltine will add to the cost of local government both in the transition period and afterwards. One estimate is that it could add £100 to each council tax bill in the first year of reorganisation, 1996 – within 12 months of the next general election.

The new environment secretary, Mr John Gummer, confronted the issue last month by announcing the government might accept restructuring plans which were more expensive than the status quo. He also bolstered the review by shortening its timetable, and announcing that leaving two tiers intact would be "the exception". He apparently sees single-tier authorities as a cause worth paying for.

Besides courting trouble with voters, that judgment appalled employers, worried that they would be asked to foot the bill via business rates. Mr Howard Davies, director-general of the CBI, told Mr Gummer last week that "we have always suspected that local government reorganisation could turn out to be an expensive hobby for the government". He added: "This looks to be an exercise in bureaucratic job creation across the country."

Worse for the government, Sir John Banham, the former CBI director-general appointed by Mr Heseltine to chair the Commission, takes a similar view. For him, the review is an opportunity to save money: if unitary authorities will not achieve that, he would be happy to retain the status quo.

His misgivings have been strengthened by Mori polls conducted for the commission in Derbyshire, Durham and Cleveland, the first mainland counties on which proposals have been published.

These suggest the "man in the street" has little or no enthusiasm for reform. In Durham, 54 per cent favoured the status quo. In Derbyshire the status quo was the single most popular option with 39 per cent. The most popular unitary option – splitting Derbyshire into two councils – was favoured by just 11 per cent.

"Artificial" counties created in 1974 – for instance Cleveland and Avon, which did not conform to historical county borders – may be an exception to the trend. Mori's Cleveland poll showed only 21 per cent favouring the status quo, and a conversion into three or four unitary authorities now seems likely. Big cities lacking their own strategic authority – such as Bristol, Leicester and Nottingham – can also be expected to muster enthusiasm.

The polling evidence has led Sir John to doubt the recommendations his commission has made for new, large single-tier authorities. He believes the Durham poll shows voters have been "thorougly unimpressed" by the unitary options put to them.

Public opinion was to have driven the commission in its work, as Mr Heseltine sought to avoid the mistakes of the last reorganisation of local government in 1974. But it is the government that is ever more enthusiastic about reform.

Mr David Curry, local government minister, said this week the government might reject proposals which would protect the status quo. He added: "If I wanted the entire reorganisation to be determined by MORI, I would have asked them to carry it out in the first place."

Policymakers even have an ideal size in mind for the single-tier authorities, according to Mr Martin Easteal, chief executive of the commission. He says the latest guidance from Whitehall suggests ministers believe the ideal population under a new single tier authority would be between 150,000 and 250,000.

The stance taken by Mr Gummer and Mr Curry is hard to explain. Mr Gummer argues it is "clearer where responsibility lies" if there is a single level of local government, adding unitary authorities "can reduce bureacracy and costs, and improve the co-ordination and quality of services."

Yet research suggests that it is far from proven that unitary authorities are cheaper and more accountable. According to Professor John Stewart of the University of Birmingham's Institute of Local Government Studies, there is no evidence that the existence of two tiers of local government confuses people over local authorities' responsibilities. Around 70 per cent of voters know that education is provided by counties – a figure not far behind those correctly identifying the prime minister.

Confusion over accountability is serious only for services provided by appointed government boards, such as hospitals – thought by 50 per cent to be run by counties, and by 20 per cent to be run by districts.

Professor Stewart points out that three-tier government is the norm in larger European countries. No EC country other than Luxembourg has unitary authorities. The extra tier allows the lowest level to be small and thus highly accountable. While the average English district has a population of more than 100,000, the largest lowest-level authorities elsewhere in Europe have populations of 28,000 in Sweden and 17,000 in Denmark.

As for cost, re-organisation seems likely to increase council tax bills. Ernst & Young, accountants appointed by the commission, have found a marked "economy of scale". While councils serving a population of 50,000 or less needed more than five administrative staff per 1,000 population, only 3.5 were needed for a population of 300,000. Less than three were needed in councils with a population of more than 1m. Replacing a two-tier system with small unitary authorities could thus increase total staff costs.

There would also be transitional expenses. The Association of County Councils estimates that converting each county into three unitary authorities – roughly the option the government has in mind – would cost about £27.2m per county in new town halls, redundancy bills and other transitional costs. The Department of the Environment has left open the option that council taxpayers should foot this bill, possibly adding more than £100 per head to council tax bills.

Against this background, Mr Major's decision in July to reject a proposal from the department for authorities to "opt in" to the review process if local people were dissatisfied with the status quo looks like a mistake. An "opt in" process would have allowed a less ambitious review of council boundaries, much as the Boundary Commission periodically redraws parliamentary boundaries. Unpopular "artificial" counties, such as Avon and Humberside, might then be disbanded, while Yorkshiremen could reclaim their ridings and Bristol might become a city in full control of all its services. Areas happy with the two-tier structure could carry on undisturbed.

Mr Major felt a voluntary review would encourage authorities in Wales and Scotland – where restructuring plans have been imposed without formal consultation – to resist change: moreover, this would show lack of confidence in a policy seen as a vote-winner in the last general election.

But the new, accelerated review could lose votes. If the commission finishes its work by the end of next year, the new councils, with their higher council tax bills, should come into being in May 1996. The next general election must be held by April 1997.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

EC research programmes far from 'failed'

From Prof Robin Whitty.

Sir, Your editorial, "Innovation in Europe" (October 14), reflects the same confusion and short-termism which might be about to panic some governments out of future funding for EC research and development programmes. You accuse the EC of having "squandered" money on "failed prestige projects such as...the Jessi microchip scheme"; yet you stress that evidence about the results of the programmes is "far from conclusive".

Large programmes such as Esprit and Jessi and, in the past, the UK's Alvey, do not "fail". Jessi is alive and well, as a quick call to the Jessi office in Munich, or to the Department of Trade and Industry, would confirm. It has been restructured and is now producing world-class results, helping some major European companies to enter into equal-status ventures with US and Japanese companies at the forefront of microchip technology. Or why not look at Europe's success in telecommunications and systems, rather than concentrating on computers and microchips? In any case, success or failure in these programmes is, as an FT advert might remind us, "not black and white".

The outputs of research and development filter down over a long period of time. The Alvey programme is scoring technological successes now, five years since its conclusion, that probably could not have been predicted while the programme was running, even by the scientists involved. Esprit will certainly be able to demonstrate similar benefits, the more so because the EC has put considerable thought into nurturing the take-up of its R&D, for example through the Value and Essi programmes.

In 1988 there were more than 3,000 scientists and engineers working on Esprit projects. How can we calculate the potential damage, five years later, of not having fostered and trained our technology workforce in this way? Esprit has cost the EC well over Ecu2bn in funding, bringing us on a par with the US in terms of percentage expenditure on R&D. How can Europe hope to be taken seriously in information technology without showing such commitment?

Of course, the individual programmes must be, and are being, continuously assessed and adjusted in focus and implementation. Things could be made much easier for small and medium-sized enterprises, for example; perhaps more money should be spent on running the programmes and less on individual projects within them. But the vote-losing potential of spending large amounts of money on our technological future is probably not a very helpful or enlightening parameter in the equation.

Robin Whitty,
director,
Centre for Systems and Software Engineering,
South Bank University,
London SE1 0AA

Odd comment on ITV cartels

From Mr Peter Ibbotson.

Sir, In his letter of October 13, the director-general of the Incorporated Society of British Advertisers opposes changes to the ITV ownership rules on the grounds that "advertisers do not want to see new cartels and monopolies develop". This is an odd observation, since the rules on airtime sales have for some time past allowed any single sales point to sell up to 25 per cent of the ITV market. At present, there are five sales points selling ITV, and there are no proposals to reduce their number.

With respect to his concerns about regional programmes within the 15 licence areas of ITV, the Independent Television Commission has an effective armoury of powers to ensure their provision at the level and quality promised in the application process of 1991. It is our contention that the resources to sustain regional commitments (and also with growing competition the strength of the network schedule) will be best ensured by allowing further rationalisation of the system. Underpinning programme strength must surely be in the long-term interest of viewers and advertisers alike.

Peter Ibbotson,
director of corporate affairs,
Carlton Television,
101 St Martin's Lane,
London WC2N 4AZ

Freight ignored in assessing Eurotunnel's prospects

From Mr Barry Worthington.

Sir, I would like to correct a misconception in the Lex column regarding Eurotunnel ("Tunnel vision", October 12). As any transport student would tell you, Eurotunnel is not a glorified fixed-link version of a roll-on-roll-off ferry, nor is it a short-haul flight.

Half the capacity is dedicated to international rail traffic, yet one does not hear of this side of the business, only of "Le Shuttle" – a reflection on whoever does the marketing for "Eurostar".

The important point is that this project will connect the UK with a growing continental TGV system, and will revolutionise freight handling. No sane person will change a mode of transport twice when there is a direct and fast city centre to city centre service. No sane businessman will send goods via ship in the face of a simpler freight alternative that delivers door-to-door within 24 hours.

On this basis, the demands upon tunnel capacity will grow, and it is likely that a second one will be in the planning stage by the turn of the century.

Barry Worthington,
6 Garforth Avenue,
Ancoats,
Manchester M4 6LA

Banking on efficiency formula

From Mr Philip Greening-Jackson.

Sir, I would ask your readers to join me in a little game.

Next time you are waiting in a bank queue, work out the bank's Service Score (ss). This is calculated by applying the following formula:

CP/CA x CW = SS, where
CP=number of possible cashiers (ie, number of windows),
CA=actual number of cashiers working,
CW=number of customers waiting in the queue.

I would like to start the competition with NatWest Liverpool Fruit Exchange. At 11.20 on October 15 it scored:
CP=5,
CA=2,
CW=13,
giving a value to SS of 32.5. This will take some beating, but I am confident that the banks will rise to the challenge.

Perhaps the banking ombudsman could be prevailed upon to donate a small prize.

Philip Greening-Jackson,
Sloan and Company,
chartered accountants,
Stanely Court,
19-23 Stanely Street,
Liverpool L1 6AA

Figuring out the Gatt

From Mr Ian Goldin.

Sir, The estimate of annual gains of at least $213bn (in 1992 dollars) which will accrue by 2002 from a successful completion of the Uruguay Round has been discussed in a recent FT editorial ("Endgame in the Gatt", September 29) and in commentaries by David Dodwell (World Trade News, September 30), Frances Williams (World Trade News, September 30) and Samuel Brittan ("Where Gatt's $200bn really comes from", October 4).

Your readers may be forgiven for finding it difficult to identify the source of these numbers. The one citation that has been given (September 30) was erroneous as it referred to an earlier publication I co-authored rather than the relevant recently released volume.

The book which summarises the results of the four-year modelling collaboration between the OECD Development Centre and the World Bank is published jointly by OECD and the World Bank under the title, *Trade Liberalisation: Global Economic Implications*, by Ian Goldin, Odin Knudsen and Dominique van der Mensbrugghe.

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FINANCIAL TIMES

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Wednesday October 20 1993

The question for Mr Clarke

THE FIRST unified Budget, due in November, is also Mr Kenneth Clarke's first Budget. The chancellor must stamp his mark on economic strategy.

The biggest question he faces is whether further fiscal adjustments are required, beyond those announced by Mr Norman Lamont last March. The former chancellor introduced a fiscal "wedge", which is set to raise £6.7bn (1 per cent of gross domestic product) in 1994-95 and £10.3bn in 1995-96. Even so the public sector borrowing requirement would, according to the Treasury's forecasts, only decline from 9 per cent of GDP (excluding privatisation proceeds) this year to the still high level of 4 per cent in 1997-98.

The "green budget" put forward yesterday by the Institute for Fiscal Studies in collaboration with Goldman Sachs indicates that further action is probably needed. Indeed, it notes that on some measures the present fiscal position is worse than it has been in peacetime: the general government "primary" deficit – the deficit less net interest – will peak at close to 6 per cent of GDP; the "real" Budget deficit – the deficit adjusted for inflation – is higher still; and the ratio of public debt to GDP is set to double in half a decade.

There are two gleams of light in this otherwise sombre picture: the first is that the inflation of the 1970s and the fiscal surpluses of the late 1980s brought the ratio of gross public sector debt to GDP to the exceptionally low level of 35 per cent in the early 1990s, from over 80 per cent 20 years before. The second is that the economy is in recovery, which should allow it several years of above-trend growth.

The authors of the green budget argue that if the economy were to recover at 3 per cent a year, while public spending were to grow at 2 per cent in real terms (which is what happened at a comparable stage of the last cycle), the PSBR could fall to 3.6 per cent of GDP by 1997-98. Even this would not be low enough to stabilise the ratio of public sector debt to GDP, forecast to be just over 50 per cent at that time, if the inflation rate is also to fall within the government's target of 1-4 per cent. But the required fiscal adjustment would be modest, no more than about 1 per cent of GDP.

It would be possible to argue for a higher peak ratio of debt to GDP. But this would be risky, since the primary surplus ultimately required to stabilise the ratio of public debt to GDP increases with that ratio whenever the real interest rate exceeds the real growth of the economy.

The most important objection to doing nothing more is that 3 per cent economic growth, while possible, is far from certain. If things were to go wrong, the government could find itself under severe pressure to raise taxes in the run-up to the next election.

Some argue that further fiscal adjustment would itself delay recovery and so make the fiscal position still worse in the medium term. That would be a powerful argument if it were impossible or unwise to use monetary policy to offset fiscal tightening.

Early action on the fiscal position, offset by monetary loosening, might even make it easier to sustain the desired rate of growth. The reason for the deterioration in the fiscal position was the extraordinary tightness of monetary policy during the period of ERM membership. This needed to be rebalanced. To an extent, it has been. But the rebalancing may have to go further if growth is to be sustained without an explosive increase in the external deficit. A controlled depreciation now, when the economy has plenty of slack, would be far better than an uncontrollable one later.

Taking no further fiscal action might work out, but only if everything were to turn out well. Only a foolhardy chancellor would bet on that. The probability is that a further fiscal adjustment will be required. Politics suggest the adjustment should come sooner rather than later. Economics suggest there is no great merit in delay. Mr Clarke should go for higher taxes and lower interest rates.

Bhutto revisited

MS BENAZIR BHUTTO'S first term as Pakistan's prime minister from 1988 to 1990 was a catalogue of disasters born of her own inexperience and of hostility on the part of the country's political and military establishments. The second chance that began yesterday may therefore not seem a cause for unalloyed rejoicing. There are, however, reasons to suppose that this time could be different, and that Pakistan is not quite the same place that she attempted to rule five years ago.

The first is that the Pakistani elite may have learnt something from the turmoil the country has just been through. After a year of wrangling between opposition, government and president, Pakistan this month managed to stage something like a free and fair general election. Although the result was a hung parliament, Ms Bhutto's mandate now seems clear enough, thanks to support from small parties. Her main opponent, Mr Nawaz Sharif, has also promised to respect the result. The army, which with the then president brought Ms Bhutto down last time, now seems prepared to play a more neutral role. And while the danger persists of destabilising constitutional disputes between the government and the president, who is to be elected separately next month, all must now be aware that such battles only lead up a blind alley.

Second, Ms Bhutto herself ought this time to be in a stronger position both to diagnose her country's political and economic ills and to treat them, largely thanks to the remarkable interim premiership of her immediate predecessor, Mr Moeen Qureshi. During barely three months in office, Mr Qureshi, spurred on by a foreign exchange crisis, set about tackling the networks of political and financial patronage that lie at the heart of Pakistan's malaise – vowing to tax the country's farmers, for example, and empowering state-owned banks to redeem bad loans they had been forced to make to politicians and powerful businessmen.

The economic emergency persists and Ms Bhutto has promised to continue with reforms needed to qualify for a three-year programme of International Monetary Fund loans, as well as to try to end Pakistan's international isolation. None of this will be easy, least of all in a fragile coalition government. But at least Ms Bhutto now knows what she has to do, and has a freer hand than she had before to do it.

Credit card war

THE UK credit card market is hotting up. Vauxhall's launch yesterday of credit cards offering discounts on the purchase of its cars and comparatively low interest rates is the biggest threat so far to a business traditionally dominated by clearing banks. Vauxhall clearly means to make an impact. A similar card launched in the US by General Motors, its parent, has attracted 8m customers in just over a year.

Moreover, Vauxhall is not on its own. Financial services group Save & Prosper recently introduced a card with an interest rate of 14.6 per cent, much less than the 23 per cent average. MBNA, a US bank, is planning to base its European credit card operations in the UK. Other non-financial companies – with Ford, General Electric and American Telephone & Telegraph touted as likely candidates – are expected to follow Vauxhall's lead.

This process promises advantages for both new entrants and consumers. For a company like Vauxhall, a credit card could be a powerful tool to build brand loyalty. Users will have an incentive to buy Vauxhall cars rather than those made by rivals.

For customers, stiffer competition should bring lower interest rates as well as a wider variety of services. While credit card users have not been badly served by the clearing banks, there have been complaints. Chief among these are the introduction of annual credit card fees in the past few years and a switch to charging interest from the date of the transaction instead of the date of the statement. To this is added the constant gripe that interest rates are much higher than base rates.

Consumers themselves are partly to blame for not shopping around more vigorously. Research shows that most do not know what interest charge they pay. But banks and building societies are also to blame in that they have generally failed to differentiate their services, so offering consumers little opportunity to exercise choice. This in turn largely reflects lack of initiative.

There is, however, one anti-competitive practice which could usefully be swept away: Visa and Mastercard, the dominant credit card networks, generally do not admit non-banks to their club. Vauxhall has avoided this restriction by using the services of HFC Bank. But this is cumbersome. If the market is to develop to its full potential, credit card clubs should be pressed to open their doors.

Tony Jackson explains why, behind the bribery scandals and strikes, Italian industry is doing rather well

No tragedy despite dramatics

Italian industry is bothered about its image these days, and with good reason. The casual visitor need only switch on the TV or pick up a newspaper to be confronted by a public relations disaster of the first magnitude: yet more executive arrests and suicides, yet more Mafia killings, yet more strikes.

Oddly enough, though, Italian industry is in some ways doing rather well. This year, Italy is headed for its first trade surplus since the war. In the first six months, exports were up nearly 20 per cent. The severe domestic recession means profits are down; but the Italian stock market – for what it is worth – has been one of Europe's star performers this year.

Part of the paradox is easily explained. Amid the general mayhem of the corruption scandal which has enveloped business and government, Italian employers have enjoyed one remarkable piece of luck. For decades, they had been obliged to raise wage rates in line with inflation – the so-called *scala mobile* system. In July of last year, the *scala mobile* was abolished. Two months later, Italy left the European exchange rate mechanism and the lira was devalued by more than 20 per cent.

But it was Italy's membership of the ERM which had caused the *scala mobile* to be abolished in the first place. The lethal combination of rising wages and a fixed currency gave employers the ammunition to demonstrate that the old system was unsustainable. But just as that burden was removed, so too was the currency straitjacket. Italian industry is thus enjoying the best of both worlds.

Mr Giorgio Garuzzo, chief operations officer of Fiat, says: "Between 1987 and 1991, the cost of labour in Italy went up by 9-10 per cent a year, nearly twice the rate of France or Germany. Since the lira was not devaluing, we lost 20 or 30 percentage points of competitiveness in that period. So we fought against the *scala mobile*, and we won. Then devaluation came, and overnight we were back to the economics of 1987. We had regained all the ground we'd lost."

The economic situation is thus in one sense surprisingly benign. As befits a country whose prime minister, Mr Carlo Ciampi, is a former governor of the central bank, inflation is running at a mere 4.3 per cent, more than a full percentage point down from a year ago despite devaluation. In the state-owned industries, wage rises are running at practically zero. How long this will all last is another matter. As a senior Italian official remarks: "The level of competitiveness of Italian goods is absolutely exceptional at present. This is another way of saying the lira is undervalued."

But there may be broader reasons for not taking the headlines at face value. Mr Innocenzo Cipoletta, director general of the employers' federation, Confindustria, says: "In a Latin country like Italy, changes are always dramatic. Whenever you change, you are in crisis."

And, he argues, Italy has been here before. "In the 1970s, we had inflation of 20 per cent, huge balance of payments deficits, an IMF loan, a political crisis and a dramatic rise in terrorism. Nobody would have given a lira for our chances." In the event, of course, the 1980s proved a boom time for Italian capitalism, for which it is only now paying the price.

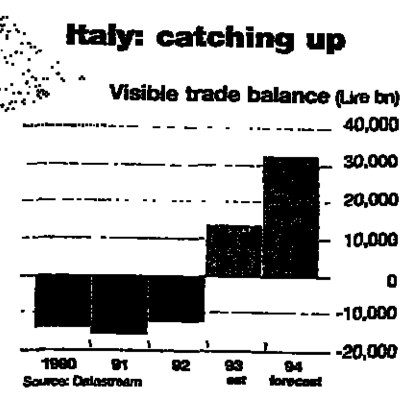
This argument is part of a wider thesis, which says the Italian economy has a persistent habit of lagging behind the rest of Europe and then catching up in bursts. The catch-up phases, such as the late 1960s and most of the 1980s, are euphoric. The economy is now in one of the corresponding downswings, characterised by deep gloom and – as Mr Cipoletta puts it – the conviction that Italy is merely the most advanced of the developing countries.

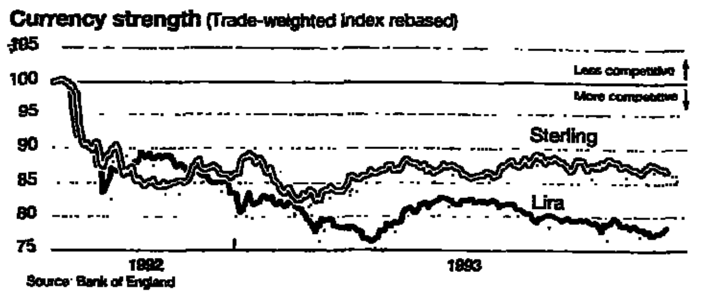
At the level of individual industries, the process of lag and catch-up is neatly illustrated by Fiat. Conventional wisdom says that if Europe has one carmaker too many, Fiat – with its unproductive plant and lacklustre models – could well be it. But Fiat's new plant at Melfi, in the lunar landscape of Basilicata in southern Italy, is startlingly modern. Its layout is revolutionary, its level of automation extreme. Its claimed productivity – 79 vehicles per worker per year – is very nearly the highest in the world. Its remote site was chosen partly because the local workforce had no previous knowledge of the car industry. The oldest man in the plant, the works director, is just 35.

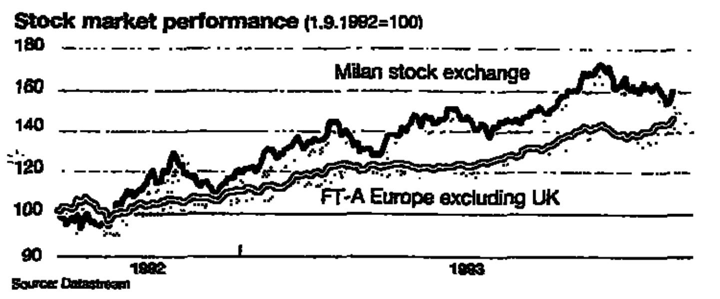
Italy is catching up in another sense. For many decades, the economy has been cursed with an enormous and inefficient state-owned industrial sector. Great chunks of it, from banking to steel, are now to be privatised. The process is contentious, since privatisation is a potential weapon against corruption and therefore resisted by the old guard.

Prime minister Carlo Ciampi

Italy: catching up







But it seems unlikely that Italy can resist the European privatisation vogue: and in any case, the hugely indebted Italian state badly needs the cash.

This is not to deny that the private sector has a stiff job ahead of it. For a start, the corruption scandal – known locally as *Tangentopoli* ("Bribe Cities") – has done serious harm, even if some industrialists are inclined to shrug it off. The damage, says Mr Cipoletta, has been enormous. Or perhaps not, according to a senior colleague at Confindustria, Mr Rosolino Orlando. "Companies weren't involved in *Tangentopoli*," Mr Orlando says. "People were. If you want to buy an Italian machine tool or Italian textiles, you don't think about *Tangentopoli*. You don't buy images, you buy products. You buy on price and service."

Behind this inconsistency is a resentful feeling among many industrialists that they were in some sense victims of the political system. The ambivalence is well expressed by Mr Garuzzo of Fiat, who at one point had a warrant out for his arrest over Fiat's involvement. "This is a welcome process," he says. "The process of doing business with the state must be transparent. If the scandals are the price of righting the situation, the scandals are welcome. But if the scale of it was not known, its existence was common knowledge. So perhaps we should clean our laundry less publicly."

Even without the corruption scandal, the image problem remains. Take, for instance, labour relations. In recent months there has been a recurrence of that old Italian bugbear, the rail strike. There has also been a particularly nasty conflict at a state-owned chemical plant at Crotone, in Italy's deep south.

Employers in the private sector take a predictably hard line on this. "We have to pass through a period of strikes over the next year," says Mr Cipoletta of Confindustria. "If not, you can't change anything. You can't get rid of 50,000 teachers without causing tension in the educational system. The rail strike going on at present is a good strike."

As for the Crotone dispute, employers say, this is a typical instance of managerial incompetence in state-run industries. For northern managers, there is a further sub-text: Crotone is in the south, so what else can you expect?

This is a reminder of yet another persistent problem: the regional tensions within the Italian state. In the wealthy regions of the industrial north, there is deep resentment over the cost of propping up the impoverished south. But it is one thing for northern industrialists to argue – as they do – that the south should forget industry and concentrate on tourism and agriculture. It is another to go along with more extreme talk of separatism, which from a business viewpoint is a prescription for chaos.

Dr Roberto Tronchetti Provera, vice-chairman of the Lombard employers' federation, based in Milan, says: "Separatism would solve nothing. Perhaps we would pay less taxes, but we need the southern market. Our members are working not just in the European single market but in the domestic market. We need rules to allow them to operate properly within it."

But however formidable the list of problems, the case for optimism remains. None of the issues is new; the point is that they are all being addressed at once. The process is both painful and humiliating. But one cannot quite dismiss Dr Tronchetti Provera when he claims: "Italian companies will come out of this period much stronger than before. Not in the near future, but in the medium term, Italy will be a very interesting area."

Opting out from the welfare state

PERSONAL VIEW

The welfare state is in trouble, in the UK as elsewhere. As the public cost of pensions, education and health inexorably outpaces tax receipts, the government is finding it increasingly difficult to honour its commitments to the elderly, the young, and the ill. And in spite of the rise in welfare spending, the disparity between rich and poor has widened over the past decade.

Under the current system of universal benefits large amounts are spent on people who are already well off. It is widely believed that the only alternative is to channel welfare state services to the poor through means tests, taxes on pensions, and the like. This would reduce poor people's incentive to become self-reliant and erode the middle class's political support for the welfare state.

There is, however, another alternative, one that reduces the government's welfare state spending without making the poor or the affluent worse. It is my welfare opt-out programme, which gives people the option of relinquishing their entitlements to certain publicly provided welfare state services in return for a rebate. The size of the rebate would depend on the cost of the relinquished entitlements. The average per capita cost would be computed for different groups of people, depending on their income, age, sex, marital status, and other determinants of welfare state demands.

This rebate would take the form of a claim against the government amounting to 70 per cent of the cost of the relinquished entitlements, for each group of people. Where the cost accrues in the future (such as pensions for people currently of working age), the claim would take the form of government bonds with an average maturity commensurate with the costs; where the costs accrue at present (such as education for people with school-aged children), it would amount to an immediate tax reduction. Of course, the option would have to be tied to compulsory insurance against sickness, disability, and old age.

That would leave 30 per cent of the funds to cover the "deadweight loss" arising because people consuming few services are more likely to choose the opt-out option. By specifying the characteristics of each opt-out group sufficiently narrowly, the deadweight loss could be reduced below 30 per cent of the available funds, leaving a surplus to improve the state-provided services.

The programme would give the right incentive to choose between public and private services

To get a rough indication of how this programme would work, observe that over the past decade, the government's national insurance spending (excluding unemployment benefits) was about 8.2 per cent of UK gross domestic product minus total central government revenue. Thus people who relinquished their entitlement to publicly provided retirement pensions and sickness and invalidity benefits would qualify for a rebate amounting to about 5.7 per cent of their income, on average. By the same calculation, people who gave up their National Health Service entitlement would get a 5.3 per cent income increase; and those not taking advantage of publicly provided education would receive a 4.6 per cent rise in income.

Some say that allowing people to leave the welfare state system would turn it into a poverty programme. But this argument does not apply here. There would be no incentive for the affluent to opt out while the poor stay in. Those consuming few welfare state services would receive a small rebate and thus have a small incentive to opt out. And since the rebate is tied to the cost of the state-provided services those who opt out would have no incentive to vote for a run-down of the state sector.

The welfare opt-out programme would give people the right incentive for choosing between public and private provision of welfare state services. The people who opt out would be the ones whose particular needs could be met more adequately through private providers. Given the enormous diversity of needs and the inevitable standardisation of publicly provided services, it is inevitable that such people should exist. So the public and private welfare state systems would exist side by side, each providing services in which they have a comparative advantage. The resulting competition would give both an incentive to become more efficient.

Here is a way for the government to reduce its spending without hurting anyone. The reduction in distortional tax-and-transfer arrangements among middle class groups should gradually generate enough savings to the government – through taxes from new private welfare state providers – to permit improved state provision.

Dennis J. Snower

The author is professor of economics, Birkbeck College, University of London, and programme director, Centre for Economic Policy Research

OBSERVER

Down and out in DC

■ Cost overruns on the World Bank's headquarters building in Washington – some $100m above the original $186m – do not seem to have made the bank one wit more modest when it comes to doling out advice to third world governments on how to handle their finances.

Some of the staff seem to be equally challenged in the humility department.

Take Armeane Choksi, vice-president for human resources and development operations policy who, with his wife, is selling the Chevy Chase home to move into one they are now having built.

A full-page colour ad in Washingtonian magazine describes in painful detail the heartbreak involved in moving house.

"She will miss their long private drive, the bright and open floor plan and the wonderful decks overlooking the majestic trees."

"He'll remember the luxurious master suite complete with Jacuzzi, skylight, separate shower, and circular windows, the grand first floor library with fireplace, and the impressive entry foyer. They'll both miss the dumbwaiter which carries groceries direct into the kitchen!"

The ad also says that this luxurious dwelling boasts "walls of glass, soaring ceilings and enormous room sizes".

No way station

■ Pugnacious Gerald Corrigan, who captained the New York Fed through many a market crisis, is happiest in the very thick of things.

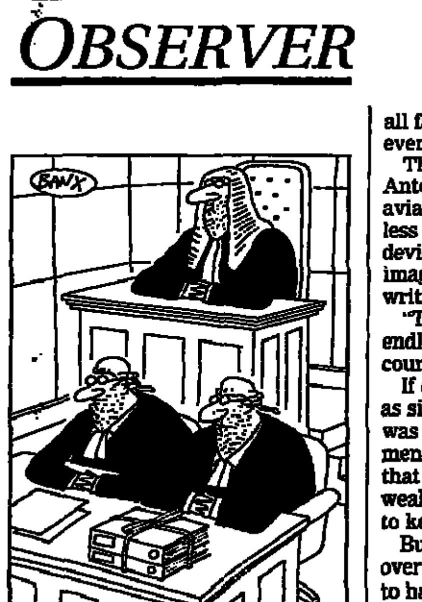
So what on earth is he doing emerging chez Goldman Sachs to run "special projects", head the bank's group of outside advisers and gladhand important clients – guaranteeing himself everything, in fact, except proximity to the epicentre of one of Wall Street's leading investment banks?

The 52-year-old former Fed chief, who will no doubt be more than generously remunerated, sees his position as "flexible but highly substantive".

Does that mean he is being lined up as a future chairman? He laughs off the suggestion, as does Goldman chairman Stephen Friedman, who is nevertheless expecting his new recruit to view this as "home for his career, not a way station".

However special the deal, meanwhile, Corrigan does not come in as one of the fabled general partners, who even in 1991, before Wall Street's current bonanza started, had a share in profits reckoned to run to $1.15bn.

Eyeing the long list of partners to which his name will not be appended Corrigan claims, a trifle unconvincingly, to be "just a footnote".



Franc forte

■ Jean-Claude Trichet, governor of the Bank of France, proudly unveiled a new series of banknotes yesterday, starting with a FFr50 bill. Unsurprisingly, he had a ready reply to the query that now might seem an undiplomatic moment to signal such a national, as opposed to European, monetary manoeuvre.

The new notes, needless to say, complement European monetary union, he explained, reflecting "a convergence" with Dutch and German designs. Indeed, it would all facilitate the design of an eventual Ecu note, he went on.

The new FFr50 note displays Antoine de Saint-Exupéry, the aviator and writer. It also has no less than four new anti-forgery devices, three of which incorporate images taken from the aviator's writings.

"This is our latest move in the endless technological race with counterfeiters," Trichet boasted.

If only exchange rate policy were as simple as banknotes. Trichet was also at pains to point out the mendacity of press suggestions that the French government is weakening in its determination to keep the franc strong.

But that was an area of forgery over which he ruefully admitted to having no control.

Bodyguard

■ Keeping up with the Joneses, continued. For a mere $45,000 (you supply the car) you can have your very own "personal security vehicle".

The O'Gara-Hess & Eisenhart Armoring Company, an Ohio-based manufacturer of armoured limousines for VIPs, is offering wraparound lightweight composite armour and plastic-reinforced glass windows for the man in the street worried about car robberies and random violence.

The company says its armour will stop bullets from .38 calibre and 9mm handguns and machine pistols – standard street-gear for your average US criminal.

Optional add-ons include tyres that keep working when riddled with bullets and an explosion-proof fuel tank. And the joy of it all is that you do not need to modify the engine, brakes or suspension because the weight is kept down by not reinforcing the floor or roof.

Doesn't that leave the driver vulnerable? Not at all: "You only need do the roof to stop snipers up high and the floor from blasts underneath. Those have not been a problem here, yet," says a spokesman.

Wrong-footed

■ Could it be that one of the problems with British soccer is that the team has not been threatened with a rocket for bad performance? In Iraq they do things differently. When the team lost the first game of this week's Asian World Cup round-robin qualifier in Qatar 2-3 to North Korea, the cabinet, chaired by Saddam Hussein's son Uday, immediately sacked the team coaches and warned four players. The coaches, said an official statement, would be "passed to an investigation commission" – which, coming from the Iraqi government, has an infinitely more sinister ring than, say, an FA tribunal. Last night the Iraqis were due to take on South Korea. Trembling, probably.

FINANCIAL TIMES
Wednesday October 20 1993

Taiwan seeks new talks over BAe aircraft deal

By Dennis Engbarth and Daniel Green in Taipei

TAIWAN Aerospace Corporation is seeking a fresh start to negotiations with British Aerospace on their troubled and long drawn-out efforts to set up a joint venture to manufacture regional jets.

"Under the structure of the original initialled agreement, there is no way for the two sides to break through their impasse. The best way would be to start new talks," Mr George Liu, senior vice-president and TAC spokesman, said yesterday.

The Taiwan side will also press its demand for a legal commitment from BAe to co-develop an advanced two-engine passenger jet when talks between TAC and Mr John Cahill, BAe chairman, begin today.

Mr Cahill is leading a team of BAe technical and financial specialists seeking to salvage the joint venture proposal which is an integral part of the company's overall restructuring and recovery strategy.

Collapse of the Taiwanese joint-venture project could lead to some 3,000 job losses at BAe's Woodford plant, near Manchester, if the UK group decides it has no alternative but to halt its regional jet activities.

The company, however, has indicated in recent days it could continue regional jet activities in the UK even if the Taiwan deal fell through. But many aerospace industry analysts believe the future of these operations would be severely compromised if Mr Cahill fails in his effort to revive the joint venture proposal.

Mr Cahill's team yesterday made contact with Mr David Howell, chairman of the UK House of Commons Foreign Affairs Select Committee who also arrived in Taipei last night.

Mr Richard Needham, the UK trade minister, is due to arrive today with a delegation of UK industrialists.

Mr Cahill and Mr Earle Hou, TAC chairman, are expected to meet today to see if discussions can be resumed.

Talks last month collapsed after TAC called on BAe to provide a detailed written commitment to co-develop an advanced two-engine "RJX" regional passenger jet, in addition to the existing RJ aircraft based on the BAe 146 four-engine regional airliner. Such a project could entail research and development costs of about £1bn.($1.5bn)

BAe is also seeking assurances that the TAC board and management will be strengthened. Mr Denny Ko, who signed the original agreement with BAe, resigned this month as president. Mr Hou has also indicated he wants to resign as chairman.

Taiwan's Ministry of Economic Affairs renewed its support for TAC to continue talks with BAe in a written statement yesterday: "The government believes this project will be beneficial in upgrading our aerospace industry. Therefore, we have provided proper assistance and necessary support. However, at present, the two sides still have a gap in understanding and need to continue to seek consensus."

Boeing rival, Page 7

Air France strikers bring Paris airports to standstill

By John Ridding in Paris

STRIKING Air France workers brought chaos to the two main airports in Paris yesterday, blocking runways and forcing flights to be cancelled for much of the afternoon.

The protests are the most serious to be launched against the lossmaking airline's recovery plan, which was announced last month. The plan involves the loss of 4,000 jobs by the end of next year and the implementation of economy measures, including reduced overtime pay.

Both Charles De Gaulle and Orly airports were paralysed by the protests, although Orly was reopened in the afternoon after three hours. However, Aéroports de Paris, the airport authority, said the situation remained very difficult at Orly because of the backlog of disrupted flights, while Charles De Gaulle remained closed.

Air France said it was unclear what the situation would be today. But he said it was likely that flights serving destinations in Europe, Turkey and Israel would be cancelled. Air France said that between five and 10 long-haul flights were expected to operate from Charles De Gaulle tomorrow.

Mr Bernard Attali, Air France chairman, condemned the protests, spearheaded by two union federations, Force Ouvrière and the leftwing Confédération du Travail. He said the cancelled flights yesterday would cost the airline about FFr70m ($12.4m).

Mr Attali has argued that the recovery plan is the only way to ensure the survival of Air France, which lost FFr3.8bn in the first half of the year. He said the protests would not affect the implementation of the plan and that involuntary redundancies would be kept to a minimum.

"One can understand the worries of our personnel, but nothing can excuse the damage to the company," Mr Attali said in a statement to employees. "These actions will weaken the company and deal it a serious blow at the worst time."

ICL launches computer based on EC research initiative

By Alan Cane

AN ADVANCED computer system, based on technology developed in Europe and paid for by the European Community's principal information technology research programme, will be launched today by ICL.

The system, a parallel processor called "Goldrush", is one of the first examples of the commercial exploitation of research carried out under the Alvey and Esprit programmes.

The UK Alvey initiative absorbed £350m of public funds between 1983 and 1989, and the European Community's Esprit initiative, part of the EC's Framework programme, is currently budgeted at Ecu2.2bn ($2.57bn) a year.

The two programmes were started as a response to fears that Europe was falling behind the US and Japan in high technology, but both have been criticised for absorbing large sums of money while generating little of commercial value.

ICL, owned by Fujitsu of Japan but based in the UK, has spent £42m of its own money to develop parallel processing technology to a commercial level. Competitors include Tandem Computers and International Business Machines, both of the US.

Goldrush will enable ICL to bid for data processing contracts for airlines and banks which involve very large amounts of data and high processing rates – contracts traditionally won by IBM.

Mr Martin Bangemann, the EC commissioner for industrial affairs, will attend the system's launch in London today.

The research on which Goldrush is based was carried out by ICL in collaboration with Groupe Bull of France and Siemens of Germany before the British company was acquired by Fujitsu in 1990. Neither Bull nor Siemens have taken up their rights to the research.

Mr Peter Bonfield, ICL chairman and chief executive, said yesterday that Fujitsu would not have free access to the Goldrush technology. He hoped that the computer could be sold to other manufacturers, including Fujitsu, to be marketed as part of their own product range.

Parallel processing, where many small computers work together to process a problem, will eventually replace conventional data processing methods, experts believe.

Goldrush is designed to process many thousands of transactions a second as part of a larger computer network. Machines will cost from £750,000 to £10m each.

THE LEX COLUMN

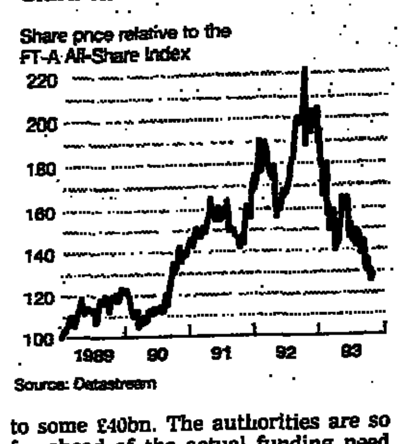
SB's dilute tonic

SmithKline Beecham has not shared in the rehabilitation of other pharmaceuticals companies this autumn. While Glaxo and Wellcome have risen by around 30 per cent from depths reached during the summer, and most US drugs companies have rallied by a lesser amount, SB has continued to languish. The company suffered less on the downswing by dint of its broad spread of business, so some underperformance might be expected. But SB cannot afford to match the inducement of rapid dividend growth now being promised by some of its rivals.

True, the company finished the third quarter with net cash for the first time since the transatlantic merger in 1989. It now faces a direct choice between accumulating cash, increasing investment or raising the pay-out to shareholders. With a spread of business ranging from animal health to fizzy drinks, SB has plenty of opportunities for incremental investment. As long as the outlook for the pharmaceuticals industry remains clouded, it might also like the chance to build a Glaxo-style cash cushion against hard times.

If so, dividend growth is unlikely to outstrip earnings by much. Since SB has only recently finished the cost-cutting associated with its merger, earnings growth stands squarely on the performance of the prescription drugs and over-the-counter medicines business. There have been recent disappointments on both fronts, especially the reluctance of the US regulator to approve an OTC version of Tagamet, the ulcer drug which loses US patent protection in May. SB will need to demonstrate all its marketing flair and muscle if it is to shine through the difficult year ahead.

FT-SE Index: 3129.6 (-8.0)



Source: Datastream

UK gilts

Had the government really been under funding pressure, it would surely have proceeded with its auction in November regardless of the Budget. The sale would have been out of the way almost a week before Budget day. So the decision not to go ahead probably reflects a large degree of funding comfort, although the Bank might also have legitimate scruples about launching a large sale just before a Budget that is widely expected to include an interest rate cut.

For the time being, it matters little if recovery does not reduce the PSBR much below the original Treasury forecast of £50bn. October's auction will bring gilt sales in the current year to some £40bn. The authorities are so far ahead of the actual funding need that they can afford to take a breather. Once again they are spared the need for a long-dated issue.

The strength of long-dated gilts probably owes as much to shortage of supply as to a conviction that inflation is permanently under control. Similarly, short gilts are buoyed by expectations of lower base rates, which, incidentally, should ensure the success of this month's auction. The market's benign mood could change if the chancellor pitches his budget message wrong. Balancing fiscal tightening with interest rate cuts is no easy matter when underlying inflation may be pushing on its 4 per cent ceiling next spring. A test of Mr Clarke's success may be whether the Bank feels able to slip in another auction between the Budget and Christmas.

Wolseley

Wolseley is a modest company with little to be modest about. Despite setbacks in California and sticky progress in France, Wolseley still succeeded in lifting earnings per share by 28 per cent last year. Good stock control, a strong balance sheet and promising acquisitions leave it well placed for further growth. Although a 6 per cent dividend increase looks meagre against earnings growth, its 2.5 times cover should enable the company to sustain a progressive pay-out policy, which is more than can be said for many in the building materials sector.

The main irritation, though, concerns Wolseley's recent penchant for issuing paper. The company has effectively staged a one-for-four rights issue on the quiet by seeping shares into the market through placings. Even here, though, it can perhaps be excused. Reasonably enough, Wolseley argues acquisitive growth should be financed with equity and organic growth with cash. So far, at least, the new shares have been used to buy earnings-enhancing assets.

Nevertheless, having outperformed the sector by more than 200 per cent since the start of 1990, Wolseley's shares would appear to have little room for more. Since it never plumbed the depths in recession, Wolseley's earnings recovery may also be less striking than that of its more reckless peers. Building materials stocks are also unlikely to be too frisky ahead of the Budget. The fear is the Chancellor may bear down heavily on local government and housing spending.

Lonrho

Lonrho-gazers were given plenty to ponder in yesterday's Delphic boardroom manoeuvres. The election of two non-executives at Mr Dieter Bock's suggestion was balanced by the oddly symmetrical and simultaneous elevation of two other men, presumably at Mr Tiny Rowland's behest. The compromise prevents a messy public battle for control which neither Mr Bock nor other shareholders seem to want and which Mr Rowland would almost certainly have lost. Perhaps Mr Rowland hopes that the move will preserve his voting advantage on the board, helping him prevent a shake-out of executive directors. If so, it was bought at a heavy price. The new non-executive board members will doubtless wish to continue the reform of Lonrho, so at best Mr Rowland seems to be fighting a doughty, if forlorn, rearguard action.

Skirmishing will now move on to detailed areas such as the formation of audit and remuneration committees and the contentious issue of board membership. Sparks will probably continue to fly, though given that institutional investors seem to support Mr Bock's initiatives, he may be expected to make further progress. Presumably the aim is to tidy up the company sufficiently for the market to accept a rights issue – which is probably Lonrho's only way forward. The company is not generating significant amounts of cash. If it is to grow, disposals are only a limited option. Higher gearing would only reawaken the fears which Mr Bock's reforms are designed to quell.

Major hints at tax rise

Continued from Page 1

Downing Street issued only a brief statement saying that Mr Clarke would "take into account" his colleagues' views when framing the November Budget.

But ministers said the chancellor – with the support of some cabinet ministers – had left no doubt that he was planning to add to the £7bn package of tax increases already pencilled in for next April.

Most senior ministers believe Mr Clarke will be obliged to raise at least an extra £3bn in revenue despite the opposition of several rightwing colleagues.

Some believe that if the economic outlook improves over the next few weeks the figure could be closer to £5bn or £6bn, with a 1 percentage point cut in interest rates to "sweeten" the package.

Several cabinet ministers, including Mr Michael Heseltine, trade and industry secretary, are thought to favour restrictions on mortgage interest relief, perhaps limiting it to 15 per cent. Others believe personal income tax allowances should be restricted to the 20p rate, which might be combined with a modest extension of value added tax.

Derivatives warning

Continued from Page 1

aspects of derivatives – that they can be used to hedge risks and allow banks and companies more flexibility in managing their assets and liabilities.

But it warns that the collapse of a leading market participant or extreme market turbulence could set off a "chain reaction", whereby problems in the derivatives markets could prompt a liquidity crisis in the cash markets and endanger the whole financial system.

"Such developments can only be avoided if all market participants are aware not just of all the ways in which such instruments can be deployed, but also of the risks attached to using them," the Bundesbank says.

The central bank warns against "fair-weather" risk and control mechanisms for derivatives business. And it suggests ways of mitigating the risks.

Market participants should improve their risk recognition systems, and disclosure requirements should be improved so that banks can no longer hide much of such business "off balance-sheet", the Bundesbank says.

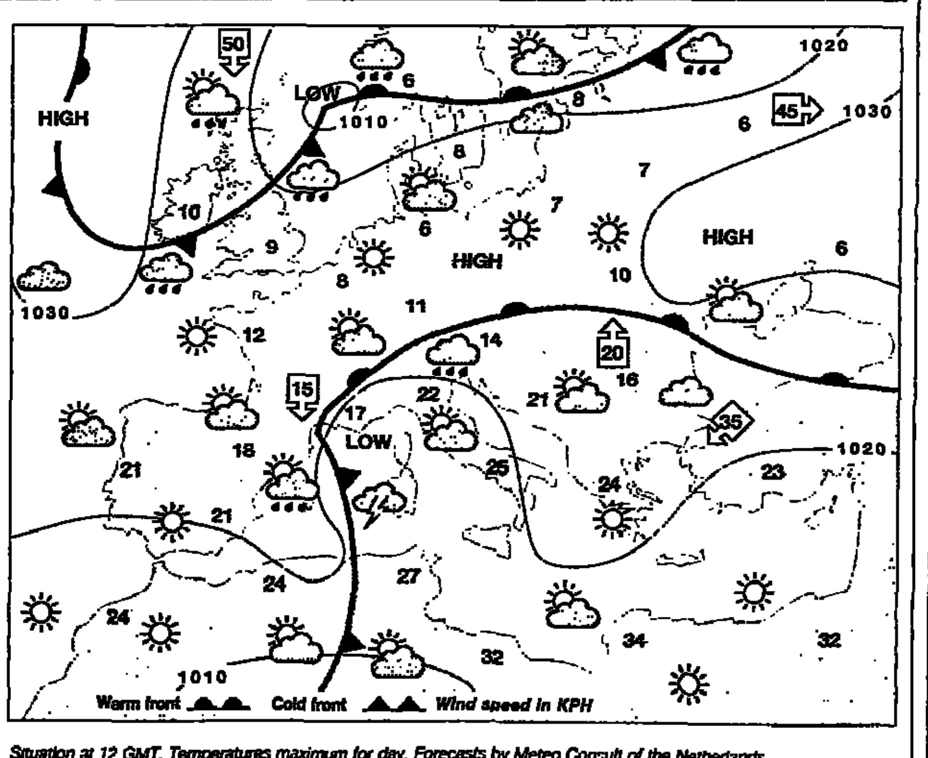
FT WORLD WEATHER

Europe today

A depression near south-west Norway will affect north-west Europe. A frontal system associated with the depression will cross the British Isles with cloud and rain. In the wake of the front, cold and unstable air will spread over the UK bringing showers which will be mixed with sleet and hail over the Highlands later. Over parts of central Europe, high pressure will still produce tranquil though cool conditions with abundant sunshine. However, a frontal zone over the Alps extending to the Black Sea will cause mainly overcast skies with some showers, especially in the Alps. Southern Europe will be mostly sunny and warm, but Spain and the Balearic Isles will have scatttered clouds.

Five-day forecast

High pressure will build again over northern UK and will extend its influence toward the Baltic States. As a result, parts of north and north-west Europe will have a lot of sunshine. Along the north side of the high, milder and more moist air will arrive in Scandinavia, resulting in significantly higher temperatures. Southern Europe, especially Italy and southern France, will have a lot of rain as a result of lingering low pressure areas.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	36
Accra	fair	33
Algiers	fair	24
Amsterdam	rain	7
Athens	sun	24
B. Aires	fair	20
B.ham	rain	9
Bangkok	shower	32
Barcelona	fair	21
Beijing	cloudy	19
Belfast	shower	10
Belgrade	fair	21
Berlin	sun	6
Bermuda	shower	26
Bogota	cloudy	18
Bombay	shower	32
Brussels	cloudy	7
Budapest	shower	13
C.hagen	fair	8
Cairo	sun	35
Cape Town	fair	23
Caracas	cloudy	30
Cardiff	rain	10
Chicago	shower	17
Cologne	fair	8
D' Salaam	fair	30
Dakar	fair	31
Dallas	thund	21
Delhi	sun	34
Dubai	sun	38
Dublin	rain	10
Dubrovnik	fair	24
Edinburgh	shower	10
Faro	sun	24
Frankfurt	fair	10
Geneva	cloudy	13
Gibraltar	sun	22
Glasgow	hail	9
Hamburg	fair	5
Helsinki	cloudy	9
Hong Kong	fair	27
Honolulu	fair	30
Istanbul	fair	21
Jersey	fair	11
Karachi	sun	38
Kuwait	fair	37
L. Angeles	sun	30
Las Palmas	fair	23
Lima	cloudy	21
Lisbon	fair	21
London	fair	9
Lux.bourg	fair	7
Lyon	fair	14
Madeira	fair	22
Madrid	sun	19
Majorca	shower	23
Malta	sun	26
Manchester	shower	9
Manila	thund	30
Melbourne	fair	19
Mexico City	fair	24
Miami	fair	31
Milan	fair	18
Montreal	fair	10
Moscow	fair	7
Munich	fair	12
Nairobi	fair	28
Naples	sun	25
Nassau	fair	31
New York	rain	17
Nice	fair	20
Nicosia	sun	32
Oslo	rain	7
Paris	fair	8
Perth	fair	24
Prague	sun	9
Rangoon	fair	34
Reykjavik	fair	4
Rio	fair	25
Riyadh	fair	34
Rome	sun	24
S. Frsco	sun	22
Seoul	cloudy	21
Singapore	shower	31
Stockholm	rain	8
Strasbourg	fair	11
Sydney	fair	24
Tangier	sun	24
Tel Aviv	sun	36
Tokyo	fair	19
Toronto	shower	10
Tunis	sun	27
Vancouver	rain	14
Venice	shower	19
Vienna	cloudy	12
Warsaw	cloudy	8
Washington	rain	19
Wellington	shower	15
Winnipeg	fair	5
Zurich	fair	12

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

New drugs spur SmithKline Beecham

SmithKline Beecham, the Anglo-American healthcare company, has reported a 9 per cent rise in pre-tax profits for the months ending September 30 to £291m. The results were helped by currencies, a strong performance from the clinical laboratories operations and recently-launched pharmaceuticals. Page 22

Pfizer and American Cyanamid, two of the biggest US drugs companies, announced substantial staff cuts in the face of pricing pressures and the threat of pending US healthcare reform. Page 18

Bouygues warns of fall

Bouygues, the world's largest construction group, warned of a fall in 1993 net profits. The French company announced a 27 per cent fall in net profits to FFr79m ($132.6m) in the first half of the year. Page 16

Puzzle over Sculley

Why should John Sculley, former chairman of Apple Computer who could have had a pick of jobs in digital interactive media, choose Spectrum Information Technologies, a $100m revenue company that has lost money for the past five years? Page 17

Kaufhof presented to US

Today Mr Jens Odewald, chief executive of Kaufhof Holding, the German retail group, launches presentations to investment institutions in New York and Boston, timed to coincide with the launch of Kaufhof's sponsored American Depository Receipt (ADR) programme for its shares. Page 20

Cheung Kong takes Allied stake

Mr Li Ka-shing's Cheung Kong Holdings has acquired a 15 per cent stake in Hong Kong-listed Allied Group, just one month after a government inspector listed allegations of corporate misfeasance by Allied's former management. Page 20

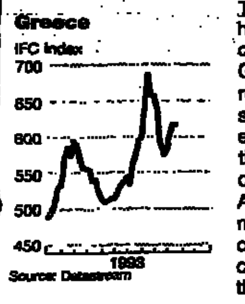
Virtuality opens at premium

The first day's trading of shares in the newly-floated Virtuality Group saw the price hitting 315p at one point, a substantial premium to the placing price of 170p. Other companies about to come to market include CentreGold, the publisher and distributor of video games, and Cantab Pharmaceuticals, the bio-technology group, which said its placing was fully subscribed. Page 22

McKechnie controls pay off

McKechnie, the international plastics and metal components group, raised pre-tax profits by 7 per cent to £24.5m ($36.5m) in the year to July 31. The group was helped by tight cost controls. Page 23

Resilience in Athens



The Athens stock market has weathered last week's change of government in Greece with unexpected resilience. After plunging some 14 per cent after the election was announced, the general index has climbed back steadily. Although it has failed to match its midsummer peak of 955, it is still 28 per cent up from the start of the year. Back Page

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Falls			
Mannesmann	327.5	−	8.5
Rheinelektra	1051	−	28
Schering	1116	−	25.5
Schmalbach Lub	325.5	−	7.5
Varta	310.5	−	9.5
Volkswagen	375.2	−	7
NEW YORK ($)			
Rises			
Citicorp	36½	+	⅜
Goodyear Tire	46⅝	+	1¼
Sears Roebuck	57	+	1⅛
Wells Fargo	119⅝	+	2⅛
Falls			
AL Labs	14⅞	−	3⅜
Philip Morris	52⅝	−	1½
PARIS (FFr)			
Rises			
Gaumont (S M)	820	+	35
Intertechnique	534	+	12
Falls			
BNP	277.1	−	6.8
Damart	5160	−	120
Ecco	548	−	12
Legris	185.1	−	4.9
TOKYO (Yen)			
Rises			
Hino Motors	711	+	26
Nippon El Glass	1330	+	60
Falls			
Central Finance	480	−	15
Chiyoda Fire	661	−	37
Daikin Inds	816	−	26
Fudo Constn	645	−	25

New York prices at 12:30.

LONDON (Pence)			
Rises			
Anglo-Eastern	84	+	7
Atkins	175	+	7
Betterware	201	+	18
Bulgin (AF) A	14	+	1½
Excalibur	25½	+	2½
HTV	93	+	4
Haemocell	120	+	5
Hammerson	413	+	14
MY Hldgs	58	+	6½
Oriflame	319	+	11
Prism Leisure	140	+	7
Quayle Munro	148	+	5
Rhino	47½	+	4
Stylo	191	+	7
Zeneca	777	+	24
Falls			
AAF	49	−	3
Aegis	32½	−	4½
Bowater	440	−	12
Euro Disney	585	−	25
Gen Accident	707	−	14
Jerome (S)	75	−	5
McKechnie	432	−	13
Rank Org	819	−	25
Storm Group	17½	−	2

Corrigan moves to Goldman


Lydia van der Meer
Gerald Corrigan: a dartboard target in some trading rooms

By Richard Waters in New York

MR Gerald Corrigan, one of the leading figures in international finance before he stepped down as head of the New York Federal Reserve Bank this summer, is to take on a full-time position with Goldman Sachs at the start of next year.

However, Mr Corrigan, 52, will not become a partner of the firm, which is renowned as one of the most profitable – and secretive – on Wall Street, and will have no line management responsibilities.

The bulk of his income will take the form of what he termed a "plain vanilla" salary, rather than the profit shares which have made Goldman partners among the highest paid in the industry.

The former New York Fed chief, who began his career as an economist at the Fed 25 years ago, will take charge of one-off projects at Goldman, as well as dealing with the banks' clients and taking responsibility for some transactions.

Both he and Mr Stephen Friedman, Goldman chairman, denied this would give him only a peripheral role at the bank. They also said the position had been specially designed to give Mr Corrigan flexibility, rather than tie him down to only one role.

One of Mr Corrigan's first assignments is likely to be a review of all the risks incurred by Goldman Sachs in its business, including market and operational risks, said Mr Friedman. Explaining the need for a full review, he said: "We should not just close the stable door after the horse has bolted."

Mr Corrigan caused a stir throughout the banking industry at the start of last year when he questioned whether banks had sufficient control over the risks they were running in the derivatives markets.

Yesterday, he said the furore stirred up his speech had had a positive effect: "There is no question in my mind that it has helped to stimulate a more aggressive approach to risk management systems and better management information. I haven't regretted making that speech – even if it made me a dartboard target in some trading rooms."

Because of his former role as a bank supervisor, Mr Corrigan said he had decided not to take a position at a commercial bank.

Also, he will not advise Goldman on its trading activities or on any bank-related transactions until after next summer, when he has been out of the Federal Reserve system for a year.

The move into the private sector for the former central banker is unlikely to stop him making provocative statements in future. "Clearly, it's the other side of the street," he said. "But I don't intend to become a wallflower on broad issues of public interest and concern."

Balance of power shifts at Lonrho

By Robert Peston and Roland Rudd

MR TINY ROWLAND'S reign as near-autocrat of Lonrho came to an end yesterday after the international conglomerate's board agreed to the appointment of non-executive directors for the first time in 20 years.

In a short meeting, the 12-man board voted unanimously to appoint two non-executive directors nominated by Mr Dieter Bock, joint chief executive of the UK-based group. They are Mr Peter Harper, a director of the conglomerate Hanson, and Mr Stephen Walls, chairman of Albert Fisher, the food group.

At the last minute, however, Mr Rowland succeeded in having two other directors appointed – Sir John Leahy, former ambassador to South Africa, as a non-executive, and Mr Terence Wilkinson, managing director of Lonrho's South African interests, as an executive.

Although the showdown between Mr Rowland, Lonrho's guiding force for 30 years, and Mr Bock, the steely German financier appointed last year, ended bloodlessly, there was little doubt that the balance of power had slipped away from the 75-year-old.

The real negotiations had taken place the previous afternoon at the company's City of London head office. Mr Rowland insisted that Mr Bock's nominees should be balanced by a further two appointments. Mr Bock acquiesced, because he "did not want to embroil the company in an expensive public row", according to one of his advisers.

Mr Rowland has been opposed to non-executives since 1973 when the "straight eight" directors – described by him as "decorations on a Christmas tree" – unsuccessfully tried to remove him. Twelve days ago he delayed the appointments of Mr Harper and Mr Walls.

Mr Bock, who acquired 18.8 per cent of Lonrho early this year, believes that Sir John and Mr Wilkinson will act impartially. He is, therefore, convinced that the balance on the 16-member board has tipped in his favour.

Mr Bock's support will be tested as he tries to transform Lonrho into a more conventional company. This will include cuts in the 13 executive directors and in the £20m ($30m) running costs of the headquarters, and the creation of an audit committee.

Lex, Page 14

Improving quality of loans boosts Citicorp

By Richard Waters in New York

BUOYED by continuing improvements in the credit quality of its loan portfolio, Citicorp, the US's largest banking group, yesterday reported an 18 per cent rise in third-quarter after-tax earnings compared with the previous three months.

While pointing to a further improvement in the bank's capital and reserves, Mr John Reed, chairman, added: "The best news in our results was in credit costs, which are declining more rapidly than we had expected, and in the improvement in the quality of our portfolios."

During the three months, net income rose to $528m, or 97 cents a share, from $446m (82 cents a share) in the previous three months and $116m (17 cents a share) in the third quarter of 1992. Commercial credit costs in the third quarter were $233m, down from $297m in the second three months of the year, while credit costs on consumer lending were $665m (down from $708m). The bank's portfolio of troubled North American property – one of the main causes of its difficulties two years ago – also showed improvements: due to reduced credit costs, this part of the bank's business reported a loss of $129m, compared with $268m in the same period last year. Troubled property loans and property owned by the bank fell to $4.7bn, down $614m during the quarter.

Trading income, which in previous quarters had provided the fastest-growing source of revenues, amounted to $478m, down from $572m in the previous three months (though ahead of the $451m of the 1992 third quarter). Income from foreign exchange trading fell by nearly a third, from $352m to $245m, while securities trading revenues rose marginally to $233m.

Despite recent efforts to control costs, the group's operating expenses during the period were 3 per cent higher than the previous three months. This was largely due to expansion in developing countries, and bonuses paid as a result of trading profits. Cost control remains a high priority, Mr Reed said.

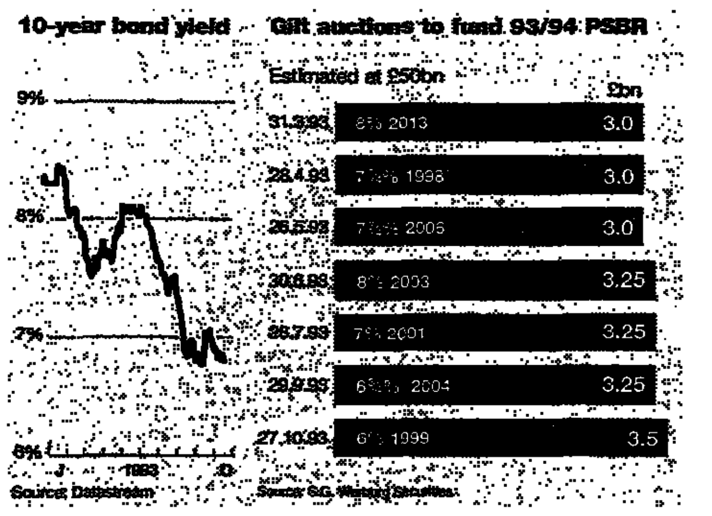
Through retained earnings and the sale of new preference shares, Citicorp lifted its key tier one risk-adjusted capital ratio to 6 per cent at the end of September, from 4.3 a year before – though still well below the 8 to 9 per cent range targeted by the bank in the medium term.

Citicorp's share price, which had fallen along with other banks on Monday in reaction to J.P. Morgan's decision to cut its prime lending rate, rose $1⅛ to $36⅝ by midday yesterday.

● BancOne, one of the US's fastest growing super-regional banks, reported net income of $284.9m, or 82 cents a share, in the third quarter, up from $245.7m (70 cents a share) in the third quarter of 1992.

Gilts rally as Bank cancels November auction

By Conner Middelmann in London



THE BANK of England's announcement yesterday that there would be no gilt auction in November triggered a sharp rally in the government bond market, as dealers speculated that October's auction may be the last this year.

The December long gilt future reached a new contract high of $114\frac{15}{32}$, closing $\frac{1}{32}$ lower but still up more than half a point on the day.

The record size of the October auction, slated at £3.5bn, and the government's well advanced funding programme sparked some speculation that the Bank might cancel the December auction. The Bank said no gilt auction would be held next month because it would be too close to the Budget on on November 30.

"I can't help feeling the Budget was used rather as an excuse to cancel the auction," said Mr Simon Briscoe, UK economist with SG Warburg Securities.

The Treasury is well ahead in its funding and market participants estimate that, including next week's auction, the Bank will have financed some £40bn of the projected £50bn public sector borrowing requirement. Moreover, many analysts expect the PSBR to come in lower than forecast, at £45bn-47bn.

If an auction is held in December – and the bank is keeping its options open – it could be held earlier than the traditional last Wednesday of the month, which would be in the middle of the holiday season. "They could easily hold an auction in the first half of the month," said Mr Chris Anthony, gilts analyst with UBS.

But some traders said that the Bank might be reluctant to hold an auction mid-month, when market conditions can be volatile amid the regular raft of monthly data releases.

But even if there were no more auctions until January, "that doesn't stop them from selling taps in the meantime," said Brian Plaistow, head of gilts trading at Nomura International.

"They could do as much funding through tap sales as if they were holding an auction," said another dealer. If the Budget was well received by the gilts market, the Bank could make substantial tap sales with relative ease.

This year's bull run in the gilts market has facilitated the funding of the UK's growing PSBR. The yield on the 10-year benchmark gilt has fallen sharply to 6.78 per cent from 8.15 per cent in January.

The bonds to be sold at this month's auction will carry a 6 per cent coupon and mature on August 10 1999.

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Barry Riley

Global bulls graze on familiar pastures

The liquidity-driven global bull market in bonds and equities is still running strongly, refuelled recently by increased confidence that US monetary policy is not going to be tightened any time soon, some say not for another year. Meanwhile, of course, rates are still actually falling in Japan and Europe.

Classic cyclical influences are at work. As deposit rates come down, resources are transferred from banks into the securities markets. This is reinforced by high savings rates because of the low confidence of consumers in difficult economic conditions, exacerbated by the problems faced by the personal sectors of several countries in coping with high debt levels inherited from the 1980s boom. Prices of financial assets are being bid up.

A research note from Kleinwort Benson points out that deposits now account for just 19 per cent of US household financial assets, down from 26 per cent in 1985. Mutual funds have risen from 2 per cent to 6 per cent over the same period, and August net inflows hit a new peak, with $11.4bn going into equity funds and $14.4bn into bond funds. The aggregate net sales for the year could be over $250bn at this rate.

An increasing part of these vast capital flows is being directed overseas. This impetus for the global markets is being reinforced by US pension funds, which are not revelling in new money flows to anything like the same extent, but which happen to have embarked on a diversification drive. When 1 per cent of US pension fund assets moves out of the country, that is $30bn on the rampage.

In the context of such massive flows of capital, normal bases of stock market valuation go out of the window. Hong Kong has always been a "cheap" market on fundamentals because the risks are high, but these quibbles cannot survive in the face of tidal waves of foreign capital. The last time it happened was in 1987, when the Hong Kong market rocketed 51 per cent in five months before the October crash.

It is not clear that there will be a similar warning bell in future

Hence the fears that bubbles are being generated. We know from the 1987 experience how modern financial markets can behave. History will not exactly repeat itself, but the faintest whisper of a rise in US interest rates is going to cause a lot of trouble in markets around the world.

The attitude of professional investors is ambivalent. Booming markets attract business. US mutual funds do not turn money away because it is a bad time to invest, they eagerly rake it in and keep fully exposed. The risks can be passed on to the clients.

All the same, one of the lessons learned at the time of the 1987 crash was of the potential value of tactical asset allocation models, which warn when the bond and equity markets have got out of line. You might not think that professional investment managers would need a computer model to tell them when this has happened, but people can get carried away with bull market euphoria in a way that microprocessor chips cannot.

Those few that obeyed their TAA models in the summer of 1987 did well. It is not clear, however, that they will get a similar warning bell in future. The models they are using are generally quite happy with current yield ratios.

The ratio of the long bond yield to the equity market dividend yield in the UK, for instance, is about 2, which is very comfortable in terms of the experience of the past 20 years. But interest rates, inflation and economic growth are all much lower than they were in the 1970s and 1980s. We need a model tailored to the 1990s.

If the models cannot be trusted we are thrown back on traditional warning signs of an imminent stock market peak. One of these is that money tends to move into fringe areas in search of value that no longer exists in the mainstream. The Hong Kong market has risen by 54 per cent in the last seven months. Another is that naive private investor money tends to flood in at the peak. Does this sound at all familiar?

Still another is that bond prices tend to top out several months before equities, although there is some evidence that the time lags have tended to shorten. Last Friday's new low for the US Treasury long bond yield was reassuring, but we must keep watching closely.

Bouygues issues warning after 27% fall mid-term

By Alice Rawsthorn in Paris

BOUYGUES, the French company which is the world's largest construction group, yesterday warned of a fall in net profits for 1993. This came as it announced a 27 per cent reduction in net profits to FFr79m ($14.1m) in the first half of the year from FFr108m in the same period last year.

The group, whose founder, Mr Francis Bouygues, died earlier this year, said it hoped to be able to maintain the same overall level of activity in 1993 as in 1992, but was concerned that the downturn in its property division would depress profits.

Bouygues which, like other construction companies has been badly affected by the decline in European building activity, suffered a slight fall in turnover to FFr29.3bn in the first half of this year from FFr30bn at the same stage last year. Its core public works division saw sales stabilise at FFr11.8bn.

Property was one of the worst affected areas of activity during the first half as the group was hit by the problems of the residential and commercial markets in France and other countries.

The group expects these difficulties to continue in the second half with property turnover falling to FFr3.8bn in 1993 against FFr5.5bn in 1992.

Road construction was another problematic area in the first half. Sales in this division rose slightly to FFr9.8bn from FFr9.4bn.

However, Colas, the group's road construction subsidiary, recently reported an unexpectedly heavy interim loss. Bouygues anticipates a slight improvement from this division in the second half with full-year sales rising to FFr22bn from FFr21.3bn.

Bouygues was bruised by a fall in interim profits at TF1, the flagship French television station in which it is a 25 per cent shareholder. This was due to the general pressures on the French media and a reduction in exceptional profits from property sales.

The group said that, at the end of September, its orders for public works were stable against the same period of the previous year, with off-shore orders showing a slight improvement. Bouygues forecast an overall reduction in sales of 5 per cent to FFr59.3bn from FFr62.7bn for the full financial year.

Effjohn stages strong recovery

By Christopher Brown-Humes in Stockholm

EFFJOHN, the Helsinki-based passenger shipping group, staged a strong recovery in the first eight months, as better results from its Baltic Sea operations offset continued losses in its international cruise activities.

The group broke even after financial items, having posted a FM102m ($17.8m) loss for the same period in 1992. It still expects to make a loss for the full year, but says the figure will be lower than last year's FM261m deficit.

Effjohn's main unit, Silja Line, was able to strengthen its position on its key Baltic routes with streamlining and a reduced challenge from its main competitor.

Silja was able to increase passenger numbers by 27 per cent to 3.8m, although the Finnish and Swedish economies remained weak. Operating profits were up to FM146m from FM63m.

By contrast, the group's international activities, which include the cross-Channel company, Sally UK, and cruise shipping operations in the US, saw operating losses deepen to FM38m from FM25m.

Turnover was up 33 per cent at FM3.24bn.

The FM204m operating profit, which included a FM96m gain from vessel sales, was wiped out by higher financial costs reflecting the group's extensive investments in new tonnage.

Wolseley confounds forecasters

By David Blackwell in London

THE SHARE price of Wolseley rose 18p to 692p yesterday as the rapidly expanding UK building materials group again confounded forecasters with higher than expected profits for the year to July 31.

Pre-tax profits rose by a third to £121.1m ($182m) from £91.3m. Analysts had expected between £110m and £115m.

Mr Jeremy Lancaster, chairman and managing director, said recession had eased, particularly on the US east coast and the UK.

The figures included "surprisingly encouraging first-time results" from Enertech, the Swedish oil and gas burner manufacturer acquired for £45m in April, which made a trading contribution of £3.6m.

Other acquisitions made during the year contributed £1.1m. A currency benefit added £5.5m, up from £0.7m.

The group also reduced costs, although Mr Lancaster gave no details. "We have run this business lean and mean for 30 years, and we just run it lean and mean all the time," he said.

Turnover increased by 27 per cent from £1.95bn to £2.5bn, including £69.4m from acquisitions. Of the total, £1bn derived from building distribution in Europe; £1.2bn from building distribution in the US and £278.5m from European manufacturing and other activities.

Mr Lancaster described UK recovery as "patchy".

Earnings per share rose from 26.27p to 33.6p. A final dividend of 9.75p (against 9.45p) is proposed, taking the total for the year to 13.3p, from 12.55p.

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Hungary places 51% of plastics processor

By Nicholas Denton in Budapest

HUNGARY'S State Property Agency yesterday announced that it had placed 51 per cent of Pannonplast, the state-owned plastics processor, with UK and US investors.

Details of the transaction were not disclosed by the privatisation agency, but the purchasers are believed to include emerging markets funds.

The placement, arranged by Credit Suisse First Boston, the investment bank, clears the way for another tranche to be offered to the public and floated on the Budapest Stock Exchange next year.

Some of the shares will be offered on concessionary terms under the small investor share-buying programme decided upon last week by the Hungarian cabinet.

Pannonplast was among eight companies named as candidates for the first wave of sales from next January under the new privatisation scheme.

Over five years, Hungary's conservative government intends to sell state shareholdings worth Ft100bn ($1.08bn) in 70 companies on concessionary terms to small investors in an effort to broaden share ownership and privatisation.

Every adult Hungarian paying a Ft2,000 entrance fee will be entitled to a Ft100,000 interest-free credit facility which can be used to subscribe to the public offerings.

The Pannonplast announcement comes three years after the company's privatisation was originally announced as part of Hungary's failed first privatisation programme.

An IPO scheduled for July 1991 had to be postponed because of the rapid deterioration of the economy following the collapse of the Comecon east European trading bloc.

The SPA said that a subsequent restructuring had reduced debt levels and improved operating profitability, allowing the current private placement.

A recent revival in the Budapest stock market has also improved the investment environment.

Rhône-Poulenc takes centre stage

John Ridding and Paul Abrahams look at the French chemical group

THE privatisation of Banque Nationale de Paris, successfully launched on the Paris stock market on Monday, will be a hard act to follow. The challenge will fall to Rhône-Poulenc, France's flagship chemicals group, chosen by the French government as the next public-sector company to take its place on the auction block.

Several factors suggest a repeat performance when the chemicals group is sold within the next few weeks. Rhône-Poulenc has been partially privatised. A sale of 10 per cent of the company's shares in January reduced the government's direct holding in the chemicals group to 43 per cent, with Crédit Lyonnais, the state-controlled bank, and AGF, the state-controlled insurance group, holding 8.2 per cent and 7.7 per cent respectively.

The reduction in the state's stake has given Rhône-Poulenc experience of share issues and makes the sale a relatively small operation. The government's remaining shares are valued at about FFr15bn ($2.7bn), compared with the FFr28bn raised by BNP and the FFr50bn which would flow from the sale of the government's 50 per cent stake in Elf-Aquitaine, the oil, chemicals and pharmaceuticals group which is next on the government's privatisation list.

For the first time, the government will use a book-building technique to ascertain the value of the shares. However, the precedent of BNP which was cheaper than expected, and the need for the government to maintain momentum in its plans to privatise 21 groups, suggests that they are unlikely to be expensive.

As with BNP, the price asked of a group of stable core shareholders – expected to hold between 25 per cent and 35 per cent of Rhône-Poulenc after privatisation – is expected to be higher than for individual investors. But this is not expected to pose difficulties, and the formation of such a group appears nearly complete. Crédit Lyonnais and AGF are expected to be joined by Axa, the insurance group, and BNP, in which Rhône-Poulenc took a 1 per cent stake at the time of its privatisation.

The Dassault and Mérieux families will become core shareholders following a share issue which will give Rhône-Poulenc complete ownership of Institute Mérieux, the vaccines group.

If the technical aspects of the issue and the probability of an attractive price support the prediction of a smooth privatisation, however, the company faces a series of challenges at the operating level. First-half profits, announced last month, showed a fall of 11 per cent to FFr1.37bn. Mr Jean René Fourtou, the group's chairman, expects full-year profits to decline and does not expect a significant recovery next year.

The reasons are to be found in the company's operating environment. Healthcare remains the group's most important business. S.G. Warburg, brokers, expects the division to generate operating profits this year of FFr6bn, compared with FFr6.4bn for the group. But the healthcare operations, which include the majority-owned subsidiary Rhône-Poulenc Rorer, have been hit by healthcare reforms in Germany, Italy and the UK. Sales for the subsidiary could fall during the third quarter compared with the same period last year. For the year they will continue to rise.

Analysts expect RPR's underlying sales growth to be about 7 per cent this year, while earnings per share will grow by about 15 per cent as interest payments fall and cost-cutting improves margins.

In the longer term, reforms in France, which accounts for 25 per cent of the group's healthcare sales, are inevitable, admits the company. However, it insists any changes will be less severe than elsewhere on the continent.

The agrochemicals sector is troubled. Rhône-Poulenc's activities, which generated sales in 1992 of FFr10.3bn, are expected to report falls in turnover and trading profits this year. Its most important markets, France and Germany, dropped 25 per cent this year following the reforms of the EC's Common Agricultural Policy. The group is launching two products in the next two years which should lift sales but incur additional marketing costs.

Jean René Fourtou: expects a decline in full-year profits

Meanwhile, Rhône-Poulenc's more traditional chemicals activities have been hit by a downturn in Germany and France which was more serious and prolonged than expected by the management.

Analysts believe fibres and polymers may break even this year on a turnover of about FFr10.5bn. The organic and inorganic intermediates division is expected to tumble into loss on turnover of FFr13.4bn and speciality chemicals, heavily weighted towards the US and UK, should make a small profit of FFr600m on turnover of FFr12.3bn.

However, the worst seems to be over. In chemicals, prices appear to have stopped falling. Even the price of phenol, which has suffered from oversupply and a sharp fall in demand, is stabilising. In the fibres division, which saw profits fall to FFr36m in the first half from FFr418m, benefits of restructuring – such as July's joint venture with Snia of Italy – should help curb costs and improve margins.

Broader reorganisation within Rhône-Poulenc is likely to be one of the most important factors in a return to profit growth. The sale of assets, such as the group's shares in Roussel-Uclaf for about FFr4.5bn in June, are helping to reduce the group's debt from about FFr25bn. It seems possible that the company's target debt/equity ratio of 50 per cent by the end of 1994 could be achieved by the end of this year. About 10 non-core businesses remain in Rhône-Poulenc and some could be spun off or sold.

The benefits of reorganisation should bring more fundamental advantages. Mr Fourtou's strategy since taking over has been to transform Rhône-Poulenc from a production-oriented company to one focused on marketing and innovation. More than 80 of the group's businesses have been sold as part of the the shift in strategy. Annual R&D expenditure has increased to FFr6.5bn from about FFr3bn in 1986.

The benefits of this shift in focus and restructuring, have been masked by the depressed state of many of its markets. The group should find itself in a relatively strong position when European economies, France and Germany in particular, start to revive. The group has important launches in drugs, agrochemicals and speciality chemicals, whose success will be critical for the company's future.

Profitability should be assisted by privatisation. Mr Fourtou has argued that the sale of the government's stake will make it easier to raise new capital, strengthening the balance sheet and reducing the cost of debt. The company does not anticipate a new share issue immediately, relying on continued restructuring to reduce borrowings. But the more impressive the privatisation act, the greater the attractions of a return to the market.

Rhône-Poulenc (Operating profit by sector, FFr m)

	1991	1992	1993(E)	1994(E)
OI*	763	528	-200	200
SC*	89	562	600	800
Healthcare	4,206	4,962	6,000	6,600
Agro	1,161	870	700	850
Fibres & Polymers	651	532	0	300
Miscellaneous	-598	-675	-700	-700
Total	6,272	6,779	6,400	8,050
Net Financial Charges	-3,454	-3,208	-2,300	-1,900

*Organic & Inorganic Intermediates/Speciality Chemicals (E) = Estimate Source: S.G. Warburg

INTERNATIONAL COMPANIES AND FINANCE

NWA back in the black at $112.3m in third term

By Richard Tomkins in New York

NWA, parent of Northwest Airlines, the fourth-largest US carrier, reported net profits of $112.3m for the third quarter, compared with net losses of $19.7m for the same quarter last year.

The company said the results showed action taken to restructure the troubled airline over the last year had begun to take effect.

Earlier this year, the heavily indebted company narrowly escaped filing for bankruptcy by securing wage and benefit concessions from labour unions and agreeing a restructuring of its bank loans.

The company's shares are privately held following a 1989 leveraged buy-out led by Mr Alfred Checchi and Mr Gary Wilson, now joint chairmen.

Mr John Dasburg, president and chief executive officer, said the third quarter was the strongest period of the year for airlines.

Last year's figure had been unusually depressed by a fares war initiated by a competitor, so an improvement had been expected.

However, Mr Dasburg said the substantial improvement demonstrated progress in positioning Northwest for long-term profitability.

"We still have much work ahead of us, but we are pleased with our results in the third quarter and grateful to the people of Northwest for their diligent efforts to restore Northwest to profitability," he said.

Traffic for the quarter decreased 9.1 per cent to 15.94bn passenger miles from 17.54bn the previous year, but profits improved because loss-making domestic routes were cut and costs came down.

Mr Dasburg said the wage and benefit reductions agreed by employees had contributed $40m to third quarter profits.

Turnover rose by 5.9 per cent to $2.393bn and operating profits rose to $270.1m from $61m.

● LTV, the third biggest US steel producer which in June emerged from seven years of bankruptcy protection, turned in third-quarter profit of $400,000, against $632.4m a year earlier, agencies report from New York.

Revenues rose to $1.05bn from $944.2m.

Net earnings for the nine months totalled $4.07bn, against $727m, with revenues rising to $3.04bn from $2.88bn.

Interacting with the full Spectrum

Louise Kehoe on former Apple head John Sculley's surprise move

MR JOHN Sculley's move from Apple Computer to Spectrum Information Technologies has perplexed many observers. Why should a man who could have his pick of jobs in the emerging world of digital interactive media, choose Spectrum, a $100m revenue company that has lost money for the past five years?

"I looked at a whole bunch of opportunities over the past few months, everything from running major corporations to various derivative businesses in interactive television," Mr Sculley says.

"But I had little interest in running a major corporation. I have already done that a couple of times" – at PepsiCo and Apple. "My real interest, having been bitten by the bug of Silicon Valley, was in doing something very entrepreneurial, where I had a chance for significant wealth creation."

He was drawn to Spectrum by its patented technology that enables wireless data communication, via cellular networks, linking portable computers and personal digital assistants, such as Newton, his pet project at Apple.

He describes excitedly the first time he saw Spectrum's cellular modem technology operating, four weeks ago in his new Connecticut home; sending messages, via a cellular telephone from his Apple Newton to a fax machine.

"Suddenly I realised all the things that we talked about with Newton, about mobile communications, but had not been able to deliver at the product launch in August, were now possible."

But Mr Sculley claims "zero credit" for discovering Spectrum. "I stumbled on to it. I'm almost embarrassed to explain," he says. "Mr Peter Caserta [Spectrum chief executive before Sculley's appointment on Monday] had been trying to get in touch with me for months." The Spectrum executive finally prevailed upon his next door neighbour, a former PepsiCo employee who knew Mr Sculley, to place a call.

Mr Sculley reluctantly agreed to meet with Mr Caserta as a favour to his friend. A one-hour meeting turned into a five-hour session, Mr Sculley recalls, "and the more I heard, the more interested I became." But still he had no thoughts of joining Spectrum, nor did the company have any ambitions to hire one of the best-known executives in the industry.

Only after Mr Sculley resigned from Apple, last Wednesday, did he begin negotiations about joining Spectrum. He set about a thorough examination of its business, hired a team of engineers to assess its technology and attorneys to examine its patent claims, worked out an employment contract and finally, on Sunday night, signed an agreement to join Spectrum as chairman and chief executive.

Mr Sculley has acquired rights to take a significant equity stake in Spectrum, through stock options, but declined to give details.

Both Mr Sculley and Mr Caserta, now vice-chairman of Spectrum, talked on Monday of building Spectrum into a company with the clout of Intel and Microsoft, two of the most powerful companies in the computer industry.

Both are reluctant to discuss Spectrum's past business dealings, but Mr Sculley sees Spectrum as a "gem of a company".

John Sculley: sees Spectrum as 'a gem of a company'

If so, say other computer industry executives, it is a diamond in the rough, lacking the polish that might be expected of a company with which Mr Sculley would associate himself.

In May, Spectrum announced a technology licensing agreement with AT&T and claimed that it would make "hundreds of millions of dollars" from the deal. Its stock soared $9 to $13¾ in a few days. But when AT&T said it expected to pay Spectrum only "a few million dollars over three or four years," the stock plummeted to $4. Shareholder lawsuits are pending.

This and other controversies surrounding technology licensing agreements, Spectrum's acquisition last year of a chain of computer stores and disputes over its patent claims have earned it a mixed reputation. Spectrum has lost money for the past five years. On Monday, however, its shares leaped from $7⅝ to $11⅛ on news of Mr Sculley's arrival.

But none of this seems to worry Mr Sculley. "I've satisfied myself that I'm comfortable attaching my reputation to this," he says. "The draw for me is a chance to be able to help a company, much as I did when I went to Apple 10 years ago," he says.

"The model I was looking for, my ideal, was to do something like Barry Diller did with QVC, the television shopping channel, a year ago. He found a small company that nobody had noticed. When he joined up he got an equity position in the company and a lot of people started looking at it and saw its potential."

"The world will have to decide whether Spectrum is equivalent to that. But Spectrum has a lot of things that were on my list of criteria."

In particular, Mr Sculley says he was looking for a company that could profit from the convergence of computer, communications and consumer electronics technologies. "I felt that if I could get a company that was small but had cash on its balance sheet – Spectrum has $20m – we could begin to move into acquisitions, alliances and relationships. I know most of the heads of the major telecommunications companies around the world and can open doors for Spectrum."

After his first day at the helm, Mr Sculley had set priorities: improving relations with licensors of Spectrum's technology and planning new licensees. "I haven't been this excited since I joined Apple 10 years ago," he says.

Santos accepts Boral's offer for Sagasco

SANTOS, the Adelaide-based gas exploration and production company, yesterday announced that it was accepting the takeover offer by Boral for Sagasco, in respect of its 19.9 per cent interest in the target company, writes *Nikki Tait in Sydney*.

Santos was a previous bidder for Sagasco but ran into opposition from the Australian Trade Practices Commission. Litigation between Santos and the TPC ensued.

While this was still under way, Boral, the building materials group, put in an offer. Last week, with the support of the South Australia government which holds a controlling stake in Sagasco, Boral gained control of its target.

Anglovaal Group

Mining companies' reports – Quarter ended 30 September 1993

All companies mentioned are incorporated in the Republic of South Africa.

All financial figures for the quarter and progressive figures for the current year to date, including those of Loraine Gold Mines, Ltd, are unaudited.

Rate of exchange on 30 September 1993: R1,00 = £0,19, £1,00 = R5,23.

Development results given are the actual sampling results. No allowances have been made for adjustments necessary in the valuation of the corresponding ore reserves.

Shareholders requiring copies of these reports regularly each quarter should write to the Secretaries, Anglovaal Trustees Limited, 5th Floor, 33 Davies Street, London, W1Y 1FN.

Hartebeestfontein Gold Mining Co Ltd

Reg. No. 05/33828/06

Issued capital: 112 000 000 shares of 10 cents each

	Quarter ended 30 Sept 1993	Quarter ended 30 June 1993	Financial year ended 30 June 1993
Operating results			
Gold			
Ore milled ... t	778 000	777 000	3 065 000
Gold recovered ... kg	7 118	6 939	26 872
Yield ... g/t	9,2	8,9	8,8
Revenue ... R/t milled	368,26	336,49	294,66
Costs ... R/t milled	255,65	237,63	236,66
Profit ... R/t milled	112,61	98,86	56,00
Revenue ... R/kg	40 252	37 678	33 608
Costs ... R/kg	27 943	26 609	27 222
Profit ... R/kg	12 309	11 069	6 386
Revenue ... R000	286 507	261 451	903 134
Costs ... R000	198 896	184 637	731 504
Profit ... R000	87 611	76 814	171 630
Low-grade gold plant			
Ore milled ... t	467 000	493 000	1 887 000
Gold recovered ... kg	768	971	3 267
Yield ... g/t	1,64	1,97	1,73
Revenue ... R/t milled	66,60	69,48	56,87
Costs ... R/t milled	23,48	21,66	22,37
Profit ... R/t milled	43,12	47,82	34,50
Revenue ... R/kg	40 501	35 279	32 845
Costs ... R/kg	14 277	10 997	12 920
Profit ... R/kg	26 224	24 282	19 925
Revenue ... R000	31 105	34 256	107 307
Costs ... R000	10 965	10 678	42 211
Profit ... R000	20 140	23 578	65 096
Stoping			
Square metres broken ...	232 332	223 345	896 889
Uranium oxide			
Pulp treated ... t	774 379	771 258	3 026 024
Oxide produced ... kg	79 410	83 705	320 614
Yield ... kg/t	0,10	0,11	0,11
Financial results	R000	R000	R000
Working profit – gold mining ...	107 751	100 392	236 726
(Loss) from sales of uranium oxide and sulphuric acid ...	(938)	(1 043)	(9 142)
Non-mining income ...	5 866	6 414	19 841
	112 679	105 763	247 425
Interest paid, stores adjustment and employee service benefits ...	51	1 975	3 079
Profit before taxation and State's share of profit ...	112 628	103 788	244 346
Taxation and State's share of profit ...	56 364	48 213	99 673
Profit after taxation and State's share of profit ...	56 264	55 575	144 673
Capital expenditure ...	6 841	10 940	33 147
Appropriation for loan repayments ...	156	(548)	961
Dividends ...	—	72 800	106 400
	6 997	83 192	140 508
Development			
Advanced ... m	6 801	7 587	28 900
Sampling results on Vaal Reef			
Sampled ... m	1 784	1 882	6 072
Channel width ... cm	48	45	53
Channel value – gold ... g/t	39,8	31,8	27,4
... cm.g/t	1 890	1 435	1 448
– uranium oxide . kg/t	0,67	0,56	0,52
... cm.kg/t	31,87	25,21	27,45

Financial

The financial results include the results of hedging transactions.

Costs for the quarter include a provision of R1 900 000 in respect of a profit-sharing scheme for employees which was introduced during the quarter.

In terms of the Company's articles of association, the directors' borrowing powers are limited to R50 000 000. At 30 September 1993, borrowings totalled R579 000 (1992: R2 512 000), of which long-term borrowings amounted to R55 000 (1992: R760 000) and short-term to R524 000 (1992: R1 752 000).

Hedging transactions

As at 30 September 1993, the Company had sold the following portions of its future gold production:

Year ending	Kg of gold sold	Average forward price per kg sold
30 June 1994	4 803	R36 715
Nine months ending		
31 March 1995	1 960	R39 155

In addition to the above forward sales commitments, the Company has entered into a series of gold option transactions. These transactions ensure a minimum average price of R36 742 per kilogram in respect of 2 800 kilograms of gold during the financial year ending 30 June 1994 and R39 224 per kilogram in respect of 2 800 kilograms of gold during the year ending 30 June 1995. In the event that the actual rand spot prices of gold exceed the above minimum assured prices, the Company will benefit to the extent of 70 per cent of such excess for these amounts of gold. The above transactions are flexible in nature and may be adjusted to the Company's advantage in response to changes in the gold price.

Hartebeestfontein Gold Mining Co Ltd *(continued)*

Dividend

Final dividend No. 75 of 65 cents per share, declared in May 1993, was paid in July 1993.

Capital expenditure

Outstanding commitments at 30 September 1993 are estimated at R6 987 000 (30 June 1993: R3 656 000).

For and on behalf of the board
B.E. Hersov
R.A.D. Wilson Directors

Directors: B.E. Hersov D.M.S., Hon. LL.D. (Chairman), B.L. Bernstein Hon. LL.D., J.J. Geldenhuys, L. Hewitt, Clive S. Menell, C.L. Sunter, R.A.D. Wilson

Alternate directors: P.J. Eustace, B.J. Furedon, K.M. Hosking, G.J. Robbertze, J.E. van Niekerk

20 October 1993

Eastern Transvaal Consolidated Mines, Ltd

Reg. No. 01/08442/06

Issued capital: 86 333 560 shares of 2,5 cents each

	Quarter ended 30 Sept 1993	Quarter ended 30 June 1993	Financial year ended 30 June 1993
Operating results			
Ore milled ... t	86 254	83 700	357 415
Gold recovered ... kg	835	864	3 640
Yield ... g/t	9,7	10,3	10,2
Revenue ... R/t milled	386,30	376,37	338,67
Costs ... R/t milled	286,77	281,61	256,21
Profit ... R/t milled	99,53	94,76	82,46
Revenue ... R/kg	39 904	36 461	33 255
Costs ... R/kg	29 623	27 281	25 157
Profit ... R/kg	10 281	9 180	8 098
Revenue ... R000	33 320	31 502	121 047
Costs ... R000	24 735	23 571	91 572
Profit ... R000	8 585	7 931	29 475
Financial results	R000	R000	R000
Working profit – gold mining ...	8 585	7 931	29 475
Non-mining income ...	(101)	642	2 313
	8 484	8 573	31 788
Prospecting expenditure ...	1 753	1 144	6 115
Stores realisation adjustment ...	—	(268)	(268)
Profit before taxation ...	6 731	7 697	25 940
Taxation ...	1 890	1 959	5 138
Profit after taxation ...	4 841	5 738	20 802
Capital expenditure ...	1 920	3 039	10 176
Dividends ...	—	6 043	10 360
	1 920	9 082	20 536
Development			
Advanced ... m	2 025	1 854	7 213
Sampling results:			
Sampled ... m	759	717	3 167
Channel width ... cm	246	238	260
Channel value ... g/t	6,8	5,5	4,7
... cm.g/t	1 679	1 310	1 233

Financial

The financial results include the results of hedging transactions.

Hedging transactions

As at 30 September 1993, the Company had sold the following portions of its future gold production:

Year ending	Kg of gold sold	Average forward price per kg sold
30 June 1994	575	R36 540
Ten months ending		
30 April 1995	380	R38 932

In addition to the above forward sales commitments, the Company has entered into a series of gold option transactions. These transactions ensure a minimum average price of R36 742 per kilogram in respect of 336 kilograms of gold during the financial year ending 30 June 1994 and R39 224 per kilogram in respect of 336 kilograms of gold during the year ending 30 June 1995. In the event that the actual rand spot prices of gold exceed the above minimum assured prices, the Company will benefit to the extent of 70 per cent of such excess for these amounts of gold. The above transactions are flexible in nature and may be adjusted to the Company's advantage in response to changes in the gold price.

Dividend

Final dividend No. 86 of 7 cents per share, declared in May 1993, was paid in July 1993.

Capital expenditure

Outstanding commitments at 30 September 1993 are estimated at R3 118 000 (30 June 1993: R4 045 000).

For and on behalf of the board
R.A.D. Wilson
J.J. Geldenhuys Directors

Directors: R.A.D. Wilson (Chairman), J.J. Geldenhuys, B.E. Hersov D.M.S., Hon. LL.D., Clive S. Menell, G.J. Robbertze, T.V. Spindler, J.E. van Niekerk

Alternate director: B.J. Furedon

20 October 1993

Loraine Gold Mines, Ltd

Reg. No. 05/39139/06

Issued capital: 18 386 986 shares of R1,00 each

	Quarter ended 30 Sept 1993	Quarter ended 30 June 1993	Financial year ended 30 Sept 1993
Operating results			
Ore milled ... t	448 000	468 000	1 742 000
Gold recovered ... kg	1 727	1 799	6 248
Yield ... g/t	3,9	3,8	3,6
Revenue ... R/t milled	150,12	140,81	127,92
Costs ... R/t milled	139,51	123,12	124,92
Profit ... R/t milled	10,61	17,69	3,00
Revenue ... R/kg	38 942	36 710	35 664
Costs ... R/kg	36 191	32 097	34 828
Profit ... R/kg	2 751	4 613	836
Revenue ... R000	67 252	66 042	222 831
Costs ... R000	62 502	57 743	217 606
Profit ... R000	4 750	8 299	5 225
Financial results	R000	R000	R000
Working profit – gold mining ...	4 750	8 299	5 225
Profit from sales of pyrite ...	46	167	1 315
Non-mining income ...	1 325	1 101	4 602
	6 121	9 567	11 142
Interest paid, stores adjustment and service benefits ...	306	158	984
Profit – no taxation payable ...	5 815	9 409	10 158
Capital expenditure ...	1 813	1 857	10 058
Appropriation for loan repayments ...	88	106	250
	1 901	1 963	10 308
Development			
Advanced ... m	4 997	3 635	14 876
Sampling results:			
Kimberley reefs			
Sampled ... m	58	30	290
Channel width ... cm	84	109	104
Channel value ... g/t	11,4	10,2	8,0
... cm.g/t	954	1 111	831
Basal reef			
Sampled ... m	198	170	572
Channel width ... cm	9	9	9
Channel value ... g/t	110,1	122,4	114,6
... cm.g/t	1 048	1 117	1 085
Eldorado reefs			
Sampled ... m	546	490	1 692
Channel width ... cm	129	116	116
Channel value ... g/t	10,4	11,0	12,3
... cm.g/t	1 345	1 272	1 426
Total – all reefs			
Sampled ... m	802	690	2 554
Channel width ... cm	97	89	91
Channel value ... g/t	12,9	13,7	14,1
... cm.g/t	1 243	1 227	1 277

Ore reserves

The total ore reserve at 30 September 1993, based on a gold price of R38 700 per kilogram, is estimated as follows:

	Kimberley reefs	Basal reef	Eldorado reefs	Total and averages
Tonnage ... t	226 000	1 082 000	482 000	1 790 000
Stoping width ... cm	121	90	126	101
Value ... g/t	9,4	9,9	10,0	9,8
... cm.g/t	1 136	890	1 259	996

Not included in the Eldorado Reefs are massive orebodies estimated to contain a total of 294 000 tons at an average grade of 5,4 g/t.

Ore reserves have been adjusted to reflect the block factors for the individual reefs, so as to more accurately reflect the content of the ore reserves (based on past history).

Although good progress has been made on access and grid development to open up ore reserves in the 3C shaft area, reef development has not yet commenced. The above tabulation therefore excludes reserves in respect of No. 3C shaft.

Operations

The treatment of surface dump material continued during the quarter. The reported 448 000 tons of ore milled includes an estimated 163 000 tons of surface dump material at an approximate grade of 0,80 g/t.

Financial

The financial results include the results of hedging transactions.

Costs for the quarter include a total amount of R1 166 000 paid to all employees in respect of a profit-sharing scheme introduced during 1992 (previous quarter: R600 000).

In terms of the Company's articles of association, the directors' borrowing powers are limited to R35 000 000. At 30 September 1993, borrowings totalled R3 731 000 (1992: R4 021 000), of which long-term borrowings amounted to R3 484 000 (1992: R3 776 000) and short-term to R247 000 (1992: R243 000).

Hedging transactions

As at 30 September 1993, the Company had sold the following portions of its future gold production:

Year ending	Kg of gold sold	Average forward price per kg sold
30 September 1994	487	R36 318
Five months ending		
28 February 1995	331	R38 386

In addition to the above forward sales commitments, the Company has entered into a series of gold option transactions. These transactions ensure a minimum average price of R42 308 per kilogram in respect of 6 298 kilograms of gold during the financial year ending 30 September 1994. In the event that the actual rand spot prices of gold exceed the above minimum assured prices, the Company will benefit to the extent of 50 per cent of such excess for this amount of gold. The above transactions are flexible in nature and may be adjusted to the Company's advantage in response to changes in the gold price.

For and on behalf of the board
R.A.D. Wilson
J.J. Geldenhuys Directors

Directors: R.A.D. Wilson (Chairman), P.J. Eustace, J.J. Geldenhuys, B.E. Hersov D.M.S., Hon. LL.D., B.J. Lawrenson, G. Maude, Clive S. Menell, J.E. Olivier, G.J. Robbertze, S.W. van der Colf

Alternate directors: C.T.S. Dempsey, B.J. Furedon, T.C. Ross, T.V. Spindler, K.A. West

20 October 1993

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 22.10.93 Pool purchase price £/MWh	Final Prices for Trading on 22.09.93 Pool purchase price £/MWh	Pool selling price £/MWh
0030	18.05	18.06	18.06
0100	18.04	18.05	18.05
0130	18.07	18.05	18.05
0200	21.31	18.06	18.06
0230	25.43	18.06	18.06
0300	25.43	18.06	18.06
0330	25.43	18.05	18.05
0400	25.43	18.05	18.05
0430	25.43	18.05	18.05
0500	18.46	18.05	18.05
0530	18.12	18.07	18.07
0600	18.11	18.08	18.08
0630	19.07	18.05	18.05
0700	25.17	26.72	29.57
0730	27.85	24.93	27.78
0800	30.08	26.54	29.41
0830	30.27	27.27	30.16
0900	30.29	27.34	30.24
0930	31.16	27.38	30.23
1000	31.05	27.34	30.24
1030	30.81	27.36	30.26
1100	30.78	27.41	30.33
1130	30.75	33.59	36.46
1200	30.73	33.62	36.54
1230	30.65	33.56	36.53
1300	30.52	33.47	36.39
1330	28.47	27.27	30.16
1400	28.44	26.53	29.40
1430	25.58	25.23	28.10
1500	25.53	25.23	28.10
1530	25.55	25.23	28.09
1600	25.61	25.27	28.14
1630	28.69	34.11	37.01
1700	28.33	34.19	37.10
1730	28.41	34.15	37.06
1800	31.41	34.05	36.93
1830	35.66	28.42	31.29
1900	36.32	25.24	28.11
1930	35.06	38.08	40.96
2000	33.29	38.09	40.97
2030	27.80	38.05	40.92
2100	25.54	25.21	28.07
2130	25.52	25.20	28.05
2200	25.51	25.20	28.05
2230	25.51	24.71	27.57
2300	25.51	24.08	26.94
2330	18.46	23.47	26.33
2400	18.14	20.90	23.75

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £15.86/MWh becomes 1.586p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0532-468769 between 8:30am and 5:10pm Monday to Friday.
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INTERNATIONAL COMPANIES AND FINANCE

More job cuts at Pfizer, Cyanamid

By Karen Zagor in New York

PFIZER and American Cyanamid, two of the biggest US drugs companies, announced substantial staff cuts yesterday. The moves came as pricing pressures and the threat of pending US healthcare reform continue to force the industry to retrench.

Yesterday announcements follow last week's news from Eli Lilly that it would cut about 4,000 jobs. Other big drugs companies, including Merck and Johnson & Johnson, have also announced job cuts.

Pfizer, considered one of the fastest-growing pharmaceuticals companies, took an after-tax charge of $525m, or $1.63 a share, against third-quarter earnings to cover its restructuring and streamlining moves. These include the cutting of about 3,000 jobs. Ultimately, Pfizer expects to reduce its staff by about 4,000, or 10 per cent.

Mr William Steere, Pfizer chairman and chief executive, said the company needed to improve its operating efficiency in the face of fast-changing market conditions.

"We believe that the prospect of US healthcare reform will further accelerate changes already occurring in our industry," he said.

The company is also writing off some assets and consolidating its manufacturing, distribution and administrative operations. It expects the restructuring to yield annual savings of at least $130m.

Including the restructuring charge, Pfizer posted a third-quarter net loss of $214.2m, or 65 cents, compared with net income of $297.5m, or 88 cents. Stripping out one-time charges, it had net income of $311m, or 98 cents, in the latest quarter. Sales rose 2 per cent to $1.87bn from $1.83bn.

For the nine months, net income was $368.6m, or $1.15, on sales of $5.49bn, against earnings of $532.1m, or $1.58, on sales of $5.28bn. Excluding restructuring charges, Pfizer earned $895m, or $2.78, in the 1993 period. Excluding charges for accounting changes in the 1992 period, it earned $814.7m, or $2.42.

American Cyanamid will take a pre-tax charge of between $150m and $200m against fourth-quarter earnings to cover restructuring moves. These include cutting about 2,500 jobs, or 9 per cent of its worldwide workforce, in the next three years. Most of the cuts will come from medical business.

Lower credit costs boost Chemical Bank result

By Richard Waters
In New York

FALLING credit costs and a one-off tax benefit pushed post-tax earnings at Chemical Banking Corporation ahead to $502m, or $1.84 a share, in the third quarter, compared with $381m in the previous three months.

Chemical also announced the appointment of a new president, Mr Edward Miller, who will take over when Mr Walter Shipley becomes chairman at the end of the year.

Mr Miller, 52, was one of three candidates who had been in contention for the job, which arises because of the retirement of chairman Mr John McGillicuddy, 62.

Leaving aside the tax benefit, which added $140m more than had been anticipated to earnings, and a $115m pre-tax charge ($67m after tax) to reflect costs associated with the merger with Manufacturers Hanover, Chemical's net earnings for the period would have been $429m, or $1.55 a share.

Mr McGillicuddy said the quarter had seen strong increases in revenues in many of the bank's businesses. Due to improvements in credit quality, non-performing assets at the end of September had fallen to $4.1bn, from $6.6bn a year before.

The loan-loss provision during the period fell to $298m, from $330m a year before.

● Third-quarter figures at Wells Fargo also reflected the benefit of improvements in credit quality, as net income rose to $165m, or $2.74, from $24m, or 21 cents, a year ago.

The loan-loss provision, at $120m, was down from $140m in the preceding three months and $400m in the third quarter of 1992.

Cost-cutting helps Unisys to move ahead

By Louise Kehoe
In San Francisco

UNISYS, the US computer and electronics group, lifted earnings in its third quarter in spite of a decline in revenues blamed on currency exchange rates and weak sales in Europe and Japan.

Net income for the quarter was $84.1m, or 29 cents a share, compared with $68.3m, or 23 cents, in the same period last year.

Excluding the positive effects of tax items in each year, earnings per share in the quarter were 20 cents, against 17 cents a year ago.

Revenue dipped to $1.81bn from $2.07bn in the third quarter last year. About 35 per cent of the decline was due to the impact of negative currency translation, the company said.

Mr James Unruh, chairman and chief executive, said cost reductions in the last two years had produced continued improvement during an extended period of global economic weakness.

"We are confident that investments being made in new services and products, together with the new organisation structure announced in August will, over time, result in the generation of profitable revenue growth," he said.

"Deterioration in our European business accelerated in the quarter, and Japan continues to be weak, offsetting growth in other parts of our business," said Mr Unruh.

He said the company would "continue to reduce costs during this period of economic weakness".

For the nine-month period, net income was $447.7m, or $1.83, including a net gain of $203.8m, or 83 cents a share, from one-time items in the first quarter. Last year net income was $222m, or 79 cents, including $27m, or 16 cents, from tax benefits. Revenue was $5.64bn, compared with $6.17bn.

Movies bolster Time Warner

By Frank McGurty in New York

TIME Warner, the largest US entertainment group, yesterday posted an 8 per cent improvement in underlying earnings for the third quarter. It attributed the advance partly to the popularity of Warner Brothers' summer movies.

Earnings before interest, taxes, depreciation and amortisation climbed to $726m, on revenues of $3.7bn, against earnings of $675m and revenues of $3.5bn in the third quarter of 1992.

However, the operating results exclude the effect of Time Warner's heavy debt burden and high non-cash amortisation charges associated with the formation of the group in 1989.

With these factors included, the group remained in the red, though its net loss narrowed to $136m, or 36 cents, against $152, or 41 cents, in the 1992 quarter.

The improvement partly reflects the benefits of the group's redemption of some preferred stock in February, and the exchange for other preferred shares for debt in April.

On the operating level, four of the group's five divisions reported record earnings.

The film business turned in record earnings of $204m, against $185m a year ago, with the division's 1992 results restated to reflect Time Warner Entertainment's purchase last month of the remaining 50 per cent of Six Flags theme parks.

Warner Brothers led the film industry in US box office receipts this summer, with *The Fugitive*, starring Harrison Ford, generating $172m in ticket sales.

The music division also had its best quarter, with $428m in earnings. US sales of recorded music and worldwide sales of music publishing rights were both higher.

The group's HBO cable-programming arm and its cable-services operation made strong contributions to the overall performance. They turned in record operating profits of $57m and $268m respectively.

US drug groups suffer setbacks

By Karen Zagor

WARNER-Lambert, the US pharmaceuticals company, disappointed Wall Street with a 5 per cent fall in third-quarter net earnings to $155.9m or $1.16 a share, against $164.6m or $1.22 a year earlier. Its shares fell $1⅛ to $69⅞.

Upjohn, another big drugs group, posted a third-quarter loss and is cutting 1,500 jobs.

Warner-Lambert's sales rose to $1.49bn in the quarter from $1.44bn. The company blamed previously disclosed regulatory issues involving its manufacturing operations and broader-based industry pressures for its earnings decline.

Warner-Lambert has run into trouble with the Food and Drug Administration over record keeping and other violations at its manufacturing plants, especially in Puerto Rico. Manufacturing difficulties have cost it about $150m in lost sales this year.

Mr Arvind Desai, an analyst at Mehta & Isaly in New York, said the poor results also reflected intensifying generic competition for the company's Lopid cholesterol-reducing agent.

The company predicted flat earnings for the whole of 1993 of about $4.78 a share.

Upjohn suffered a third quarter deficit of $30m, or 19 cents, including restructuring charges of $183m. A year earlier it earned $131m, or 73 cents, including one-time charges of $15m.

It is cutting about 1,500 jobs worldwide, eliminating or reducing manufacturing capacity and writing-down certain intangible assets as well as increasing its liability reserves.

Excluding one-time items, net income rose 5 per cent in the quarter. Sales edged 1 per cent higher to $900m.

NEWS DIGEST

Bell Atlantic down slightly

BELL Atlantic, the "Baby Bell" regional telephone company, yesterday reported third-quarter net income of $378.5m, or 87 cents a share, compared with $386.6m, or 90 cents, writes Martin Dickson in New York.

However, it said with special items in the two periods stripped out, its earnings per share rose 9.8 per cent, and net income was up 10.1 per cent.

Operating revenues in the period totalled $3.18bn, up from $3.06bn.

Bell Atlantic is currently making a bid for cable group Tele-Communications which could be worth more than $20bn.

Sprint improves to $122m for quarter

SPRINT, the US long-distance and local telephone group, lifted net income to $122.2m, or 35 cents, from $119.7m, or 35 cents last year.

However, it said income from continuing operations totalled $178m, or 51 cents, excluding special items.

This was up 42 per cent from last year's $125m, or 37 cents. Revenues rose 9 per cent to $2.87bn.

Net income little changed at GTE

GTE, the largest local telephone company in the US, unveiled third-quarter net income of $468m, or 49 cents, against $465m, or 52 cents, last year.

Excluding special items, earnings per share totalled 59 cents, up 13 per cent.

Consolidated revenues and sales totalled $4.94bn against $4.97bn.

INTERNATIONAL COMPANIES AND FINANCE

Cheung Kong pays HK$500m for 15% of Allied Group

By Simon Davies in Hong Kong

MR Li Ka-shing's Cheung Kong Holdings has acquired a 15 per cent stake in Hong Kong-listed Allied Group, one month after a government inspector issued a report listing numerous allegations of corporate misfeasance by Allied's former management.

The investigation into five companies associated with Allied was launched in August 1992, and has had a drastic impact on their share prices. Cheung Kong has paid around HK$500m (US$64.7m) for its stake in the parent company, which analysts believe has an asset value more than double that figure.

Cheung Kong is now the second largest shareholder in Allied Group, which controls two other listed companies with interests in manufacturing and property development.

The largest shareholder, Mr Lee Ming-tee, holds a 29.9 per cent stake and there is speculation that he may sell, which would give control of the group to Cheung Kong.

Following the recommendations in the government investigation, it is possible that legal action may be taken against the former management of Allied. Stock market regulators are also examining possible breaches of securities regulations.

This has created substantial pressure for Mr Lee to withdraw from the group, and he recently resigned as chairman.

Minority shareholders have yet to receive any direct benefit from the government's move to clean up the company, which has so far had to make provisions of HK$43m as a result of the investigation.

If Cheung Kong were to take control of Allied, however, it would be seen as arguably the most positive outcome of the 13-month, HK$46m inquiry.

The investigation will have shaken out a management which appears to have refused to play by the rules of a more tightly regulated stock market, and it will have replaced them with one of Hong Kong's most renowned deal-makers.

Western Areas result boosts JCI earnings

By Philip Gawith in Johannesburg

A STRONG performance from the Western Areas mine helped lift profit after tax and capital expenditure from the three gold mines in the Johannesburg Consolidated Investment (JCI) group by 23.3 per cent to R72.5m ($21.7m) in the September quarter from R58.8m in the same period last year.

Western Areas increased net profit by 70 per cent to R37.7m from R22.2m. Gold production rose for the fifth consecutive quarter, by 7.4 per cent to 4,104kg from 3,823kg, as both tonnes milled and grade increased. The average gold price received rose by 7.6 per cent to R38,091 a kg from R35,403 a kg. Unit working costs declined by 1.1 per cent to R29,511 a kg.

Randfontein produced 8,121kg of gold, up from 7,902kg, lifting net profits by 8.3 per cent to R37.2m from R34.4m after capital expenditure of R20m.

The Joel mine recorded a loss of R2.5m compared with a R3.2m profit the previous quarter. The strategy of maintaining a reduced stoping rate while increasing development to build up a sound payable ore reserve is being continued.

● Lower volumes in the inland market and weaker prices contributed to a 35 per cent decline in attributable profit to R112.4m at Randcoal, one of South Africa's three main coal producers, in the year to September. Earnings per share fell by 48 per cent to 87 cents following the issue of shares. The dividend was cut by 25 per cent to 45 cents.

Indonesian property company to go public

By William Keeling in Jakarta

CIPUTRA Development, a leading Indonesian property company, yesterday announced plans to go public next month. The company expect to raise $120m in a public offering which would value it at about $500m.

Brokers say the company has a 14 per cent share in Jakarta's fast-growing residential property market, and has a "landbank" in Java of 8.8m sq metres with a value of Rp1,474bn ($695m).

The company was established in 1981 by Mr Ciputra and is currently 98 per cent owned by his family, a shareholding which will be reduced to about 75 per cent after the public offering.

Mr Ciputra is also a leading shareholder in the Jaya Group and Metropolitan Group, which account for a further 41 per cent of the Jakarta residential property market. Estate agents estimate an annual demand for 100,000 new houses in Jakarta and 600,000 houses in all of Indonesia. Annual construction in Jakarta currently averages about 50,000 houses.

Since 1984, Ciputra Development has been developing a 455 hectare residential site close to Jakarta's international airport. The company is beginning construction of a 500 hectare "satellite city" at Tangerang, west Jakarta, and a 1,000 hectare residential and golf course development in Surubaya, an industrial city in West Java with a population of 2.6m.

The company is also entering the retail property sector, having just completed a 50,000 sq metre shopping mall and a 338-room hotel complex in Jakarta.

Brokers say funds raised at flotation will be used to finance current development projects. The company also plans to increase its landbank to 12m sq m by the end of 1996. It forecasts a gross profit of Rp88bn on revenue of Rp242bn this year, rising to a profit of Rp161bn on revenue of Rp503bn in 1994.

Kaufhof takes specialty message to New York

David Waller on the efforts of a German retailer to launch an ADR programme in the US

RARELY does a chief executive of a large German company take the trouble to fly to North America to present his company to US investors; even more rarely, amid Germany's deep recession, does that chief executive have an optimistic message to communicate.

Today, when Mr Jens Odewald, chief executive of Kaufhof Holding, launches a series of presentations to investment institutions in New York and Boston, he will have done both.

He will tell the institutions that group turnover for the current year is set to rise by more than 10 per cent from the DM20.46bn ($12.58bn) made last year. He has already predicted a substantial rise in earnings for the group after net profits of DM222.4m last year.

The presentations will coincide with the launch of Kaufhof's sponsored American Depositary Receipt (ADR) programme for its shares. The retailer will become one of the handful of German companies to set up such a programme.

The move falls short of the commitment to the US investment community shown by Daimler-Benz, Germany's biggest industrial company, which early this month obtained a full listing for its shares on the New York Stock Exchange.

Kaufhof is majority-owned by the privately-owned Swiss-based Metro Group, and the interests of institutional shareholders will always be secondary to those of Mr Otto Beisheim, proprietor of the DM60bn-plus Metro empire.

However, the timing of Kaufhof's ADR programme seems designed to prompt investors to draw parallels with Daimler-Benz – and Kaufhof will emerge favourably from the comparison, even if for accounting reasons they will not be comparing like with like.

When Daimler-Benz came to New York it announced a loss of DM949bn for the first six months of the year (under US accounting rules). The Cologne-based Kaufhof group is one of a small group of large German' companies which will be able to increase earnings (under German accounting rules) and turnover in 1993, the nadir of the worst recession in Germany since the second world war. Among fellow members of the DAX index of 30 leading shares, only a few banks and construction companies will be able to match this performance.

Jens Odewald: has diversified away from department stores

The recession has hit consumer spending hard and Mr Odewald expects the German retail sector to shrink by a real 1 to 2 per cent this year.

The group's performance has less to do with market conditions than with the strategy that the 53-year old Mr Odewald has pursued since he took over as chief executive in 1985.

Under Mr Odewald, Kaufhof has diversified away from department store business, which has been at the heart of the group since it was founded 115 years ago. The focus of the expansion has been specialty retailing. "There is no growth to be had out of department stores," Mr Odewald said in an interview last week. "Specialty stores on the other hand are increasing sales by 10 to 13 per cent a year.

"The merchandise is the same as in a department store, but the business is far more profitable. Your costs are lower because you tend to be in a suburban area rather than the city centre, and the concentration on one market niche gives the consumer a clear answer as to why he or she should go shopping in this store rather than anywhere else."

The group began its move into the specialty sector in 1985 with the acquisition of a stake in Saturn-Elektro, a consumer electronics store based in Cologne. Following a mixture of acquisition and organic growth, sales in this segment have risen from DM270m in 1987 to an expected DM4bn to DM4.5bn this year.

Other specialty activities include Reno, a low-price shoe-retailing chain, and Vobis Microcomputer, Europe's largest retailer of IBM-compatible personal computers. Kaufhof bought 50 per cent of Vobis in 1989, taking its holding to 65 per cent at the beginning of this year. Within three years, sales have grown from DM300m to DM1.5bn in 1992 and a projected DM1.8bn to DM1.9bn for the current year.

A further market segment is tourism: last year Kaufhof bought a majority stake in Kuoni, the Swiss tourism company. Sales in this area have grown from DM200m in 1975 to some DM6bn this year.

Specialty retailing last year accounted for 28 per cent of group sales and 44 per cent of profits, while department stores generated 48 per cent of sales and 47 per cent of profit.

Mr Odewald will today tell investors that specialty retailing has the potential to increase to between 35 per cent and 40 per cent of the business portfolio by 1997.

He is confident that the group will maintain its resilience to the difficult consumer spending environment of the current decade. "Specialty retailing is the runner of the 1990s," he believes.

Investors appear to share that optimism. The shares have climbed by more than 35 per cent since the beginning of the year, and at DM568 yesterday are 7 per cent higher than when Kaufhof announced its ADR plans earlier this month.

INTERNATIONAL CAPITAL MARKETS

World Bank pricing more generous than expected

By Antonia Sharpe

THE World Bank played safe with the launch of its first D-Mark global bond, setting an indicated price range which was slightly more generous than the market had expected.

The DM3bn offering of 10-year bonds will be priced today to yield between six and eight basis points over the 6 per cent German government bond due 2003. Demand was such that the bonds are likely to be priced at the lower end.

Even though the indicated range was only one basis point wider than most expectations, it sent a clear signal to the market that the World Bank was keen to attract top-quality German and international institutions.

In addition, the indicated range achieved the best pricing for a supranational issuer in the D-Mark sector since the introduction of the fixed re-offer price last year.

Joint lead managers Deutsche Bank and Salomon Brothers said the issue was several times oversubscribed, though demand from within Germany was not that strong. However, this had been expected because of the much higher yields which are available in the domestic bond market.

According to initial estimates, around one-third of the bonds were placed in east Asia, 25 per cent in the US and the remainder in Europe.

International demand was also strong for Crédit Local's FFr7bn offering of eight-year Eurobonds. Joint lead manager J.P. Morgan said around 75 per cent of the bonds were placed outside France.

The bonds were priced to yield 21 basis points over the 9¼ per cent French government OAT due 2001, at the low end of the indicated price range. When the bonds were freed to trade, the spread remained intact.

This offering replaces Crédit Local's planned French franc global bond offering, the documentation for which would not have been ready for another one or two months.

This delay meant that the offering could not be launched before late November or early December, which traditionally is not the best time to raise large amounts of money, especially under a new format.

Crédit Local was not willing to wait until next year because of its large borrowing requirement, so it opted to raise the funds through an issue of Eurobonds. However, the French franc global bond offering remains open for next year.

Ireland took advantage of arbitrage opportunities available in the Euro-escudo market to raise cheap D-Marks. At the same time, it become the first foreign sovereign issuer to tap the escudo sector of the international bond market.

At the underwriting level, Ireland's Es15bn issue of five-year Eurobonds was priced to yield around eight basis points below the 12¼ per cent Portuguese government bond due January 1998.

Euro-escudo bonds yield less than Portuguese government bonds because they are not subject to withholding tax. However, the yield differential has narrowed considerably in recent months, on rumours, now confirmed, that Portugal planned to abolish the tax on foreign holders of its bonds.

An official at Ireland's National Treasury Management Agency said the proceeds of the issue were swapped into floating-rate D-Marks at a substantial margin below the London interbank offered rate (Libor).

Ireland is believed to have achieved a margin of between 11 and 15 basis points below Libor. The floating-rate D-Marks would replace more expensive liabilities in that currency.

Lead manager Banco Portugues de Investimento said most of the bonds were placed with non-resident investors.

IFC, the private sector arm of the World Bank, achieved its aggressive dollar funding target of between 35 and 40 basis points below Libor by swapping the proceeds of its Pta10bn offering of five-year bonds.

INTERNATIONAL BONDS

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Banca Commerciale Italiana(a)‡	100	(a)	99.90R	Nov.2005	0.50R	-	Lehman Brothers Intl.
HKR International(b)§	100	(4¾-5¼)	100	Oct.2000	2.50	-	Morgan Stanley Intl.
Banco do Nordeste do Brasil	75	9.00#	100R	Nov.1996	0.875R	+490(4¾%-96)	CS First Boston
NEC do Brasil	60	9.25#	100R	Oct.1996	1.25R	+457(4¾%-96)	Bear Stearns Intl.
National Bank of Hungary(c)	50	8.00	102.97	Jun.1996	undiscl.	+240(4¾%-96)	Bankers Trust Intl.
General Electric Capl.Corp.‡	50	(d)#	100R	Nov.1996	0.75R	-	CS First Boston
D-MARKS							
World Bank	3bn	(e)	(e)	Nov.2003	0.325R	6-8 (6%-03)	Deutsche/Salomon Brothers
FRENCH FRANCS							
Crédit Local de France	7bn	6.00	98.94R	Nov.2001	0.325R	+21 (9½%-01)	C.Lyonnais/ JP Morgan
GUILDERS							
Dutch Inv.Bank Dev.Countries	200	5.875	99.60R	Nov.2003	0.20R	+15 (6½%-03)	DNIB
PESETAS							
International Finance Corp.	10bn	8.10	101.21	Nov.1998	1.625	-	Banesto
ESCUDOS							
Republic of Ireland	15bn	8.75	101.40	Nov.1998	1.625	-	BPI
SWISS FRANCS							
FP Corporation(f)★φ	90	0.375	100	Nov.1997	-	-	Daiwa Securities Bank
Nihon Nohyaku(f)★φ	70	0.375	100	Nov.1997	-	-	Nikko Bank (Switz.)

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ★Private placement. §Convertible. φWith equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Issued through Comit Finance (Jersey). Coupon pays 6-month Libor - 0.25%; minimum 5⅝%, maximum 8¼%. b) Fixing: this week. Non-callable for 3 years subject to 150% rule. c) Fungible with outstanding $150m launched on 18/5/93. Plus 149 days accrued interest. d) Coupon pays 5⅛% semi-annual in 1st year and 2% + (8.55% - S2B) thereafter, where S2B is the average of the 2-year swap offer rates for DM, FFr, L, and £. e) Priced today. f) Fixing: 25/10/93.

Euro-convertible debenture planned by Bangkok Land

By William Barnes in Bangkok

BANGKOK Land, Thailand's biggest property group, is planning to launch a $600m Euro-convertible debenture.

Following the removal of a number of legal and fiscal obstacles last year, there have been more than 20 Euro-convertible issues from Thailand, but the Bangkok Land issue is the largest to date.

The company is to tender for a $1bn contract to build 20km of inner-city overhead railway. Issue proceeds will be used to finance the project.

The company said the issue, convertible into Bangkok Land equity, will go ahead whether or not it wins the contract. The bonds will have a coupon of 4 per cent to 4.5 per cent and a maturity of 10 years.

Mr Anant Kanjanapas, chief executive, said the issue "could boost the credibility of Thailand among foreign investors".

The Eurobond market has become a highly attractive method of financing for Thai companies, since the cost of bank loans in Thailand is around 12 per cent.

Last month, Bangkok Land successfully launched a $150m Euro-convertible debenture lead-managed by Daiwa Securities. It also announced a 1-for-10 issue of warrants to existing shareholders.

Tanayong, a rival property company run by Mr Anant's brother Mr Keree Kanjanapas, has already announced a $150m Euro-convertible debenture issue with a maturity of less than 10 years. Led by Swiss Bank Corp, it is part of a Bt6bn fundraising exercise to cover urban rail projects.

Union Finance Asia and Phatra Thanakit, two local securities houses, will co-lead an issue of Bt2.5bn of unsecured debentures with warrants and Bt750m of new shares to support the issues.

Tanayong is already committed to investing some $1bn to construct an urban railway for the Bangkok Metropolitan Authority.

INTERNATIONAL EQUITY ISSUES

Gilts stage rally in wake of auction announcement

By Conner Middelmann and Tracy Corrigan in London and Patrick Harverson in New York

UK GILTS rallied across the curve after the Bank of England announced it would not hold a gilts auction in November because of the timing of the November 30 budget.

This sparked a squeeze in the futures market, where the long gilt future on Liffe hit a new contract high at 114.26. It ended at 114.25, up 0.21 point on the day.

The Bank also announced the details of this month's auction of £3.5bn 6 per cent Treasury Stock due 1999, next year's new five-year benchmark. While this is the largest auction amount to date, the news failed to dampen prices in the intermediate maturities.

According to analysts at Merrill Lynch, "the size of the issue will have been influenced by the Bank's intention to create a liquid five-year benchmark for 1994, as well as their willingness to take advantage of speculation on rate cuts feeding demand at the short end".

■ BELGIAN bond prices rallied late in the day on news of proposals for the social pact agreement between the government, employers and unions.

The yield on 10-year bonds dropped from 7.12 per cent to 7.09 in late trading. However, the proposal was only starting to emerge as the market closed. Dealers said they had not had time to examine the details.

There were two key items, according to Mr John Hall, European economist at Swiss Bank Corporation: a complete freeze in real wage costs from 1994 to 1996; abandonment of wage indexation; and cuts to public expenditure rather than tax increases.

"What we need to see is the agreement of the unions on the whole accord," said Mr Hall, "and there are a number of areas which still haven't been clarified."

However, assuming agreement is reached, the market should rally further. Mr Hall said he would not be surprised to see the yield spread between bunds and Belgian bonds narrow from 123 basis points to below 90 basis points over the next three months.

■ GERMAN bund prices rallied slightly late in the day. Dealers said the Bundesbank report's positive attitude on the trend for lowering inflation had encouraged speculation that rates would ease. French bond prices tracked the German market.

■ LONGER-dated US Treasury prices were slightly weaker yesterday morning in the wake of a stronger-than-expected September housing starts report.

By midday, the benchmark 30-year government bond was up $\frac{3}{32}$ at $105\frac{11}{32}$, yielding 5.840 per cent. At the short end of the market, the two-year note was unchanged at $100\frac{1}{32}$, to yield 3.824 per cent.

Prices eased at the long end in early trading after the commerce department announced that housing starts rose 2.8 per cent in September to a 1.35m annual rate. The data was stronger than analysts had expected – the average of forecasts was for an annual rate of 1.3m.

GOVERNMENT BONDS

FT FIXED INTEREST INDICES

	Oct 19	Oct 18	Oct 15	Oct 14	Oct 13	Year ago	High *	Low *
Govt Secs (UK)	102.86	102.95	102.72	102.70	102.81	92.20	102.95	93.28
Fixed Interest	124.14	124.38	124.01	124.18	124.27	105.18	125.20	108.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed interest high since compilation: 125.20 (1/8/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	Oct 18	Oct 15	Oct 14	Oct 13	Oct 12
Gilt Edged Bargains	99.5	102.6	103.1	106.8	105.4
5-Day average	103.5	106.4	106.0	103.4	103.4

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	120.7865	-0.328	6.59	6.62	6.76
BELGIUM		9.000	03/03	112.6500	-0.035	7.11	7.30	7.15
CANADA *		7.500	12/03	105.6200	-0.150	6.72	6.77	7.03
DENMARK		8.000	05/03	110.6750	-0.325	6.46	6.46	6.79
FRANCE	BTAN	5.750	11/98	101.1849	+0.043	5.47	5.60	5.62
	OAT	6.750	10/03	106.2200	-0.060	5.91	5.99	6.05
GERMANY		6.500	07/03	104.4550	+0.065	5.88	5.94	6.06
ITALY		10.000	08/03	106.8450	-0.030	8.86†	9.04	9.57
JAPAN	No 119	4.800	06/99	107.5769	+0.126	3.22	3.16	3.55
	No 157	4.500	06/03	104.9505	+0.295	3.80	3.77	4.05
NETHERLANDS		7.000	02/03	108.2600	-0.020	5.81	5.86	5.95
SPAIN		10.900	08/03	115.1000	-	8.55	8.86	9.13
UK GILTS		7.250	03/98	104-15	+5/32	6.09	6.23	6.42
		8.000	06/03	108-12	+2/32	6.80	6.81	7.02
		9.000	10/08	117-00	+11/32	7.13	7.13	7.33
US TREASURY *		5.750	08/03	103-22	-16/32	5.26	5.21	5.38
		6.250	08/23	105-17	-20/32	5.85	5.89	6.05
ECU (French Govt)		8.000	04/03	111.4700	-0.180	6.35	6.50	6.57

London closing, *denotes New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

TSE to post first profits in four years

THE Tokyo Stock Exchange expects to post its first profits in four years with a surplus for the six months ended September, Reuter reports from Tokyo.

Mr Minoru Nagaoka, exchange chairman, said the TSE could make a Y2.53bn profit, compared with a loss of Y2.47bn for the corresponding six months a year ago.

Despite the gloomy outlook for the Japanese economy, the exchange hopes to post profits for the whole of this year, mostly from trimming its costs, the TSE chairman said.

In contrast, the Osaka Securities Exchange has posted a loss for the six-months ended September. It made a loss of Y41m following declining turnover in cash and futures transactions, an official said.

Montreal SE president will resign in April

MR Bruno Riverin, who took the Montreal Stock Exchange into high technology and derivative products trading, is resigning next April, when he will have completed seven years as president of the exchange, writes Robert Gibbens in Montreal.

The stock exchange, Canada's second largest after Toronto, also confirmed the resignation of vice-chairman Mr Michael Harrison, and the departure of executive vice-president Mr Giovanni Giariusso.

Mr Riverin helped promote the exchange's successful bond option market.

The exchange has rebuilt profitability, but its share of Canadian stock trading by dollar value has slipped below 20 per cent.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:55 pm on October 19

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
Abbey Natl Treasury 6½ 03	1000	104¼	104½	-⅛	5.80
AlbertaProvince 9⅜ 95	600	109⅝	110	-⅛	4.30
[illegible]					

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
Arbed 7½ 95 LFr	600	100	101	+⅛	7.47
Genfinance Lux 9½ 99 LFr	1000	107¼			7.45
World Bank 8 96 LFr	1000	101	102	[illegible]	7.52
[illegible]					

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	38	15	27
Other Fixed Interest	2	7	8
Commercial, Industrial	267	272	877
Financial & Property	157	125	541
Oil & Gas	28	15	35
Plantations	1	1	6
Mines	64	13	61
Others	46	38	46
Totals	603	486	1,599

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

pm Price at a premium. For other notes please refer to the Guide to the London Share Service.

TRADITIONAL OPTIONS

- First Dealings — Oct. 11
- Last Dealings — Oct. 22
- Last Declarations — Jan. 13
- For settlement — Jan. 24

3-month call rate indications are shown in Saturday editions.

Calls: Aminex, Amstrad, Avesco, Automated Secs., Betterware, Blacks Leisure, Owners Abroad, Rhino, Ricardo, Scot. Asian Inv., Sleepy Kids and Tadpole Tech. Puts: Automated Secs., Betterware and Royal Bk. Scotland. Put & Call: Royal Bk. Scotland.

LIFFE EQUITY OPTIONS

Option		Calls Oct	Calls Jan	Calls Apr	Puts Oct	Puts Jan	Puts Apr
Allied-Lyons	550	35	47½	57½	1	12½	18½
(*582)	600	3½	20½	31	20½	37½	44
Argyll	280	16½	25½	34	1½	9½	13½
(*294)	300	3½	15	24	9	20½	23½
ASDA	48	5½	-	-	1	-	-
(*52)	57	1	-	-	5½	-	-
Brit Airways	360	24	37	46	1½	13½	16½
(*383)	390	4	20	29½	12	27½	30½
Boots	500	9½	26½	38	5	21	27½
(*505)	550	1	8	17	47	54½	58½
BP	330	8	19	25	3	13½	17½
(*334)	360	1	7½	13	27	31½	35

[illegible]

Option		Calls Oct	Calls Feb	Calls May	Puts Oct	Puts Feb	Puts May
Grand Met	390	22½	35	43½	1½	15	19
(*408)	420	4	18½	28½	14½	33½	35½
Ladbroke	180	8½	18½	21½	3	11	17
(*183)	200	1	9½	12½	18	23	29½
Utd Biscuits	360	10½	30	34½	4	17	28
(*365)	390	1½	18	21	27	34½	46

Option		Calls Oct	Calls Dec	Calls Mar	Puts Oct	Puts Dec	Puts Mar
Pilkington	180	8½	11½	18½	3½	12	17
(*182)	180	-	4½	11	20	28	30

Option		Calls Nov	Calls Feb	Calls May	Puts Nov	Puts Feb	Puts May
Brit Aero	380	32	51	62	11½	27½	36½
(*408)	420	16	36	47½	26	43	52
Blue Circle	280	19½	30	33	9	15½	23
(*286)	300	9½	19½	24	20½	26	34
British Gas	300	31½	38½	41	2½	6	10
(*325)	330	9½	19½	22½	12	16½	23½
Eurotunnel	460	42½	-	-	22	-	-
(*473)	500	22	-	-	45	-	-
Hillsdown	140	20½	23½	25	2	5	9½
(*158)	160	6	12½	13½	10½	14	21½

[illegible]

October 19 Total Contracts 32,747
Calls 21,976 Puts 10,771
FT-SE Index Calls 3,943 Puts 3,922
Euro FT-SE Calls 1,492 Puts 1,265
*Underlying security price. †Long dated expiry date. Equity premiums are based on closing offer prices. Index options are settlement prices.

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES

		Tue Oct 19	Day's change %	Mon Oct 18	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (25)	128.58	+0.03	128.54	1.35	9.88
2	5-15 years (23)	158.42	+0.08	158.29	1.47	†11.06
3	Over 15 years (8)	177.95	+0.27	177.46	2.27	9.70
4	Irredeemables (6)	209.99	-0.35	210.73	4.19	8.83
5	All stocks (62)	161.96	+0.10	161.81	1.58	10.51
	Index-Linked					
6	Up to 5 years (2)	189.32	+0.08	189.17	0.26	4.28
7	Over 5 years (11)	186.21	+0.06	186.11	0.64	4.29
8	All stocks (13)	185.62	+0.06	185.51	0.60	4.27
9	Debs & Loans (66)	144.14	+0.01	144.13	1.77	9.50

	AVERAGE GROSS REDEMPTION YIELDS		Tue Oct 19	Mon Oct 18	Year ago (approx.)
	British Government				
1	Low	5 years	6.09	6.10	7.24
2	Coupons	15 years	6.99	6.99	8.53
3	(0%-7¾%)	20 years	7.12	7.10	8.63
4	Medium	5 years	6.34	6.34	7.59
5	Coupons	15 years	7.13	7.15	8.95
6	(8%-10¾%)	20 years	7.18	7.20	9.22
7	High	5 years	6.50	6.52	7.83
8	Coupons	15 years	7.35	7.34	9.26
9	(11%-)	20 years	7.37	7.36	9.38
10	Irredeemables (Flat Yield)		7.28	7.23	9.25
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	2.32	2.34	3.02
12	Inflation rate 5%	Over 5 yrs.	3.13	3.13	3.91
13	Inflation rate 10%	Up to 5 yrs.	1.45	1.47	2.20
14	Inflation rate 10%	Over 5 yrs.	2.85	2.85	3.72
15	Debs &	5 years	7.75	7.76	8.92
16	Loans	15 years	8.09	8.08	10.32
17		25 years	8.19	8.19	10.44

FT-SE ACTUARIES INDICES

COMPANY NEWS: UK

Strong performance from clinical laboratories

Recent drug launches help SB advance 9%

By Paul Abrahams

SMITHKLINE Beecham, the Anglo-American healthcare company, reported pre-tax profits for its third quarter to September 30 up 9 per cent from £267m to £291m.

The results were helped by currencies, a strong performance from the clinical laboratories operations and recently-launched pharmaceuticals.

Group sales were up 16 per cent, from £1.28bn to £1.48bn, including £11m ($61m) from discontinued activities. Operating profits improved from £270m to £280m, including £3m (£16m) from discontinued activities. Profits on continuing activities rose 9 per cent.

At comparable exchange rates, sales and trading profit increased 6 per cent and 7 per cent respectively.

Turnover at clinical laboratories increased 39 per cent from £144m to £200m, while operating profits rose from £17m to £20m. At constant exchange rates, they rose 15 per cent and 18 per cent.

Pharmaceuticals division trading profit rose 11 per cent from £171m to £189m on sales of £821m (£709m). Excluding currencies, operating profits improved 8 per cent on sales up 2 per cent.

US turnover improved 1 per cent while European sales were up 3 per cent. German sales grew 1 per cent thanks to a strong performance from antibiotics in the former East Germany and in spite of healthcare reforms. Italian sales fell 21 per cent, although the overall market dropped only 7 per cent.

Mr Robert Bauman, chief executive, declined to detail his strategy for defending Tagamet, the ulcer treatment on which US patents expire next May. American sales represent about two thirds of Tagamet revenues, which were £614m last year. During the third quarter this year they were up 2 per cent, although this was due mostly to a US price increase in September.

The group was still discussing with the US Food and Drug Administration its possible status as a non-prescription product to be sold over the counter at chemists, said Mr Bauman. He added it remained unclear whether further data or clinical trials would be necessary.

Mr Bauman explained the group would differentiate OTC Tagamet from its Tums brand, which now has 46.8 per cent of the US antacid market. "Tagamet will be the first antacid with proven clinical efficacy. Tums will be targeted at the mild end of the market. There may be some cannibalisation, but we will do our best to minimise it," he said.

The animal health division benefited from restructuring and sales improved 19 per cent from £85m to £101m. Excluding currencies, turnover was up 4 per cent and trading profit 6 per cent at £17m (£14m).

Sales of continuing operations at the consumer brands division rose from £277m to £342m, while trading profits fell from £52m to £51m. Excluding currencies, sales were up 11 per cent. Operating profits dropped 2 per cent because of increased advertising and promotional support and restructuring costs.

Earnings per share rose to 7.5p and 11.3 cents per equity unit. A third quarter dividend was declared of 2.533p per share, 4.718 cents per equity unit and 23.59 cents per equity unit ADR.

See Lex

BM Group agrees to amend accounts

By Andrew Jack

BM GROUP, the construction equipment combine which over-stretched itself through acquisition, yesterday agreed to amend its accounts under pressure from the Financial Reporting Review Panel, the UK accounts watchdog.

The company incorrectly classified several items in its cash flow statement, and incorrectly described elements within exceptional profits shown for the year to June 30 1992.

It will not be required to re-issue last year's accounts, but will show amended figures in its 1993 accounts.

In exchange, the panel has agreed to take no further action.

Mr Howard Sutton, chief executive, said: "There was a very fine dividing line between what we did and what the panel wanted. Everything was basically disclosed."

He admitted that the company had made an "error" in interpreting FRS 1, the financial reporting standard on the cash flow statement.

It showed bank loans – including those repayable in more than five years' time – as "cash and cash equivalents", when FRS 1 says "cash" must be liquid assets realisable within three months.

BM also showed as an exceptional item profits less goodwill on the sale of companies to BB & EA, which was acquired during the year, and some of shares in which were then placed on the market. The panel said these proceeds were misdescribed.

The accounts received an unqualified opinion from Kingston Smith, the auditor. Total audit fees – including those paid to subsidiary auditors – were £725,000, plus £540,000 in non-audit work by the auditors.

Kingston Smith has since been replaced as auditor to the group by Price Waterhouse, which Mr Sutton said was considered by the board to be "in the best interests of shareholders" in view of the international growth of the company.

Hammerson share vote changes

By Paul Taylor

HAMMERSON, the international property investment company which is in the hands of new management, yesterday revealed terms of its offer to reform its two-tier voting structure.

Proposals for the equalisation of votes between the ordinary shares and the limited voting A ordinary shares include the provision to existing ordinary shareholders of 2 new shares for every 19 held to compensate for the elimination of their superior voting rights.

The compensatory scrip will result in the allotment of 5.6m new shares, representing about 2.23 per cent of the enlarged share capital.

The proposals, which were foreshadowed by the group when it launched its £200m rights issue in May and which are subject to shareholders' approval at a meeting on November 11, were immediately welcomed in the City.

Standard Life, which is a large holder of both classes of stock and was consulted over the proposals, said it considered the terms "quite acceptable" and expressed the hope that other shareholders would also find them attractive. Like many other institutional investors, Standard Life is strongly in favour in the principle of enfranchisement.

Hammerson's ordinary shares closed 14p higher at 413p while the A shares gained 5p to close at 374p.

Mr Geoffrey Maitland Smith, chairman, said the enfranchisement proposals were designed to bring the company's share structure into line with most other listed companies. "As a result, the marketability and appeal of the company's shares should increase to the benefit of all shareholders," he said.

Hammerson pointed out that in setting the terms of the compensatory scrip issue it had taken into account the market price of the two classes of shares. Over the past 12 months the premium commanded by the ordinary shares over the A shares had ranged from 4.7 per cent to 11.3 per cent and was 8.1 per cent on Monday.

The proposals are among a package of measures introduced since Mr Ronald Spinney joined the group as chief executive in May.

One word which shook a bank

Andrew Jack and John Gapper consider Samuel Montagu's damages

IT COULD prove the most expensive single word answer ever given in corporate history. It may cost Samuel Montagu more than £180m, and was yesterday sounding alarms at other merchant banks in the City of London.

In August 1987, Mr Ian McIntosh, then Montagu's head of corporate finance, attended a meeting of about 30 people at the offices of Slaughter & May, the law firm representing British & Commonwealth Holdings, the financial services group.

B&C wanted a reassurance from Montagu that its client had the money to complete a purchase. Mr McIntosh was asked and replied, simply: "Yes."

The client was Quadrex, a Delaware corporation controlled by Mr Gary Klesch. It was threatening to make a rival bid for Mercantile House Holdings.

Quadrex would hold back if B&C agreed to sell it Mercantile's wholesale broking division after the acquisition. B&C, in turn, needed the proceeds from the sale of Quadrex to allow its Mercantile bid to go ahead.

Mr McIntosh was asked to give his assurance after Quadrex said there was no time to prepare full documentation, which would require a meeting of its credit committees.

But after the acquisition, Quadrex failed to provide the cash. That ultimately helped drive B&C into administration in 1990 with debts of £1bn.

On Monday Montague was ordered to pay damages of £172m to B&C's creditors with further payments possible.

Mr John Gunn, then head of B&C and now with Midland and Scottish, yesterday recalled the meeting that began five years of litigation. "From my lawyers I believed that an oral statement was as good as a written contract."

Mr Gunn is unrepentant about relying on that single word of assurance. "You don't need to see a loan document. A merchant bank earns its money by putting its reputation at the beck and call of the client," he said.

Opinion was divided yesterday over whether the judgment would make bankers more circumspect.

One corporate financier said it would make him far more cautious about signing "highly confident" letters in which merchant banks gave assurances that their clients were able to lay hands on funds for mergers and acquisitions.

"I signed one of those letters last week, but if you put it in front of me today I would not do the same thing," he said. This was because he believed the judgment did not take full account of what Mr McIntosh meant by his reply.

He argued that an assurance that a client has funds usually means there is a credit facility in place from banks. However, such credit facilities will usually contain provisions that mean that they can be withdrawn in some circumstances.

"If you tell the man in the street, funds are available, he understands that there is a pile of cash next door. But when a corporate financier says it, it does not mean quite the same. Most people in the City know that," he said.

However, other bankers argued that they would be wary about making such an unqualified verbal assurance as Mr McIntosh in a minuted meeting. It would be more common to sign a letter with a number of disclaimers and conditions.

"With a letter like that, you hedge it around with such a lot of conditions that you are protected, quite frankly. There tend to be clauses about current market conditions, and so on," said one corporate financier.

The "highly confident" letter, pioneered by Drexel Burnham Lambert, the failed US investment bank, in the US during the 1980s takeover boom, is one case of an assurance given by a merchant bank in order to allow a transaction.

Another UK example is the requirement of the Takeover Panel that a compulsory takeover offer must carry a merchant bank assurance. In cases of public takeovers, the bank is protected if it has carried out inquiries diligently in good faith.

The most notable case in which a merchant bank has come to grief over an assurance was that involving Kleinwort Benson and the 1985 purchase of House of Fraser, the stores group, by the Fayed brothers, who were Kleinwort's client.

Kleinwort was subsequently criticised by Department of Trade and Industry inspectors for allowing statements in its name that the Fayeds had sufficient funds to finance the offer, without taking adequate steps to verify the truth.

Most corporate financiers believe that the House of Fraser case, along with a general tightening of the regulatory regime, has already made them careful about giving assurances. The Samuel Montagu judgment will only mark a further push towards caution.

"I suppose it will make some sloppy operators tighten up a bit," said one. "But it is bog standard to be asked to give this sort of assurance. Not many people will give them without being positive that they are telling the truth."

Offered assurances: Ian McIntosh, left, and Gary Klesch

ISSUE NEWS

Substantial premium at Virtuality

By Gary Mead

THE FIRST day's trading of shares in Virtuality Group excited the City, with the price hitting 315p at one point, a substantial premium to the placing price of 170p.

The shares finished the session at 289p.

The price of the flotation, which placed 7.43m shares to raise £9.45m for new product development, gave a market valuation of £44.4m for the company, which designs and produces virtual reality computer software and equipment.

But the group ended the day with a much higher valuation of £75.7m.

Mr Jon Waldern, managing director and founder, owns 10.4 per cent of the shares.

Analysts attributed the heavy trading in the shares – a total volume of 5.7m shares was traded – to several factors.

One was that the placing was with some 80 institutions, and that a number of them decided to take quick profits.

Another was the considerable amount of interest generated by a strong public relations campaign; about half of the shares on offer yesterday ended up in individual rather than institutional hands.

The interest was even more surprising considering that Virtuality has made it clear it does not intend paying dividends in the medium term, preferring to plough profits back into more research and development.

Motorola and IBM Europe have taken stakes of 3.8 per cent and 2.2 per cent respectively. Apax Partners, the venture capital company, has a 50.9 per cent stake.

Virtuality, previously known as W Industries, had turnover of £5.24m last year, with pre-tax profits of £217,000 and earnings per share of 1.1p.

Virtuality's flotation is one of a number planned for October and November, including Badgerline, the bus company, Gartmore, the fund manager, and the BSM driving instruction group.

Placing values Cantab at lower end of range

By Richard Gourlay

Cantab Pharmaceuticals, the bio-technology group, said yesterday that the placing which will bring it to the London market was fully subscribed at 460p and had raised £13.8m for the company.

The pricing was dictated by the price prevailing for the shares already quoted on New York's Nasdaq exchange where the shares were listed in 1992.

The placing values Cantab at £45.3m, towards the bottom of the range that the company had been seeking.

Mr Paul Haycock, chief executive, said he was pleased with the placing. Together with £7m of net cash already in the company Cantab could now fund at least two years of development, the upgrading of facilities and working capital.

Cantab is some way from producing a marketable product but is closest with a drug called LM-CD45, designed to reduce the incidence of rejection in kidney transplant operations.

Last year, when Cantab came to the US market, it issued 1m shares at $10.

Independent Insurance to raise £25m through listing

By Richard Lapper

INDEPENDENT Insurance, the general insurer which announced its intention to float last month, yesterday issued its pathfinder prospectus.

The company, the first insurer to seek a listing for at least 30 years, is aiming to raise £25m in fresh capital.

Mr Michael Bright, chief executive, said the listing would help the group develop its profile among brokers, as well as providing it with cash to allow it to continue expansion.

Apart from motor insurance, where Mr Bright identified a growth in competitive pressure, prospects in most markets were good.

A prospectus will be issued on November 10. An offer for intermediaries closes on November 16 and dealings in the shares are expected to begin on November 22. The issue will be underwritten by Lazard Brothers and Noble Group.

The group reported pre-tax profits of £7.1m for the first eight months of 1993. The result was struck after a £5.2m provision for a Lloyd's stop loss policy. Net assets amounted to £59m, compared to £49.8m at the end of 1992.

The group reaffirmed its intention to recommend a final dividend for the year of not less than 4.75p, making an 8.25p total.

The pathfinder includes a letter from Watsons, the actuaries, reviewing its assessment of the company's reserves. The review concludes that the technical reserves are "soundly based in that, overall, they exceed our projection of the corresponding liability (net of reinsurance) based on past and current trends."

Indications are that only a small number of existing shareholders will sell their shares.

A further reflection of confidence is that the company's existing management and staff will be buying extra shares, increasing their interest to an estimated 10 per cent of the company.

● Fenchurch Group, the insurance broker which expects to seek a stock market flotation before the end of the year, yesterday announced the demerger of its Lloyd's underwriting agency business. Underlining the change, the name of Fenchurch Underwriting Agencies will be changed to Minories Underwriting Agencies.

Canadian Pizza £30m tag

By Catherine Milton

CANADIAN Pizza, the Salford-based maker of pizza bases which is coming to the market this month, is likely to be valued at £30m, according to its pathfinder prospectus – £10m less than the company estimated last month.

Canadian Pizza, which forecast pre-tax profits of at least £3.15m (£3.21m) for 1993, said the £10m had originally been earmarked to build a factory in France: "At that stage our view was that we would raise the money on the market place.

"Having done projections and cash flows, we have decided that we are cash generative, we are going to start off in an ungeared position and we will borrow at that particular time. So we have greatly reduced the amount of money we plan to raise", said Mr Reg Bolton, finance director.

Some of the shares, due to be priced on November 3, are likely to be placed with institutions with the remainder placed subject to claw back in an open offer.

The last date for applications will be November 10.

Canadian Pizza said the flotation, sponsored by Robert Fleming with Hoare Govett as brokers, offered an exit to venture capital backers, Murray Johnstone, 3i and ECI Ventures, who supported the company in a £15.5m management buy-out from its founder shareholders in May last year.

CentreGold valued at £50m on 125p pricing

By Paul Taylor

SHARES IN CentreGold, which is coming to market through a placing and intermediaries offer later this month, were priced at 125p yesterday valuing the publisher and distributor of video games and computer entertainment software at £50.3m.

The Birmingham-based group was founded 10 years ago by Mr Geoff Brown, a former teacher who is now its chief executive.

CentreGold has grown rapidly, fuelled by booming sales of home entertainment software for Sega and Nintendo video games machines and personal computers.

Of the 20.6m ordinary 1p shares on offer, 12m are placed firm and another 8.59m are being placed subject to a clawback by intermediaries. Ten per cent of the shares placed subject to clawback are being made available to directors and employees.

The shares on offer, representing 51.2 per cent of the enlarged issued capital, comprise 11m existing shares and 9.6m new shares. Mr Brown is selling 3.95m shares but will retain a 35 per cent stake in the group following the flotation.

The new shares will raise an estimated £11.2m net for the company of which £600,000 will be used to redeem loan stock.

The balance will provide additional working capital to support ongoing development and enable the group to take advantage of new opportunities.

For the year to July 31 CentreGold achieved a 60 per cent increase in pre-tax profits to £2.72m (£1.7m) on turnover ahead 23 per cent to £68m (£55.1m). Earnings per share were 5.53p and the notional dividend was 3p.

The historic p/e multiple at the offer price is 22.3 and the notional gross dividend is 2 per cent. Dealings in the shares begin on October 28.

NEWS DIGEST

Bulgin recovers to £0.28m

AF BULGIN, the Essex-based electronics components and power supplies group, reported pre-tax profits, under FRS 3, of £280,000, against £32,000, for the six months to July 31.

Turnover amounted to £7.84m (£6.58m), including a contribution of £589,000 from acquisitions.

Earnings per share improved to 1p (0.11p).

Venturi net asset value improves 75%

The undiluted net asset value per ordinary geared share of Venturi Investment Trust stood at 25.78p at September 30, an improvement of 75 per cent over the 14.71p standing six months earlier.

Net revenue for the half year to end-September edged ahead from £100,742 to £110,471. Earnings per income share improved to 1.84p (1.69p) and the interim dividend is lifted to 1.56p (1.46p).

IMC declines to £377,000

Pre-tax profits at IMC Industries, the USM-quoted company with interests in soft drinks, in-flight entertainment systems and blank and pre-recorded video tapes, slipped by £1,000 to £377,000 in the year to April 30.

However, turnover almost doubled to £6.13m (£3.22m). Earnings eased to 0.17p (0.18p). The company said the year had been one of consolidation.

Haemocell's new arrangements

Haemocell, the maker of medical equipment, said yesterday it can now move "towards new distribution arrangements" in the US following the termination of an exclusive marketing agreement with Stryker Corp, the medical products company.

The company said all "outstanding issues relating to the termination" of the Stryker agreement, announced in August, had been resolved.

Mr David Wathan, chief executive, said he could not comment on the cost of unwinding the Stryker agreement as the Haemocell was in its close period. "Suffice it to say we are very, very happy with the arrangements in place", he said.

Haemocell dropped the exclusive arrangement with Stryker in August after sales targets were not met, Mr Trevor Wilson, operations director, said at the time.

Abtrust New Thai net assets at 126.35p

Abtrust New Thai Investment Trust had a net asset value, unadjusted for warrants, of 126.35p per share at August 31.

The figure showed a marginal fall on the value of 133.02p at the trust's February year-end, but a year-on-year increase of almost 85 per cent on the corresponding 68.48p.

Net revenue for the six months to end-August dipped to £98,857 (£129,241) but Mr Alan Henderson, chairman, said the full year figures should be satisfactory.

Golden Vale £5.4m purchase

Golden Vale, the County Cork-based dairy products company, has agreed to acquire Haslington Cheese Company and Haslington Food Ingredients for a total of £5.35m.

Of the consideration, £2.5m is in cash, £1.75m in loan notes and the balance in shares – 1.1m at the current share price of 100p.

New initiative for Octavian

Octavian Group yesterday became the latest Lloyd's agency to announce a new investment initiative, taking advantage of the opening of the Lloyd's market to corporate capital.

Lazard Brothers will sponsor Nelson Lloyd's Trust, which aims to raise £60m in equity capital to support underwriting at the Lloyd's market.

NEWS IN BRIEF

TIOXIDE GROUP, a wholly owned subsidiary of Imperial Chemical Industries, has completed a $205m (£135.7m) joint manufacturing venture with NL/Kronos at Lake Charles, Louisiana. This will provide Tioxide with its first manufacturing facility in the US.

BUNZL's Italian fine paper distribution subsidiary, Bunzl Italia, has withdrawn from Sicily. The move completes a rationalisation programme begun in 1992.

CAVERDALE GROUP has received applications for its open offer in respect of 13.5m new ordinary shares (70.8 per cent). The figure includes 932,749 agreed to be taken up by directors.

WATES CITY of London has received acceptances for more than 94 per cent of its rights issue of 34.3m new ordinary shares.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Boot (Henry) ......int	1.7	Nov 19	1.6	-	5.9
Edinburgh Trust ......int	2.95	Dec 3	2.85	-	8.4
Govett Oriental ......int	0.4	Dec 10	0.4	-	0.95
Jerome (S) ......int	0.2	Dec 10	nil	-	nil
McKechnie ......fin	9.75	Jan 14	9.75	14.75	14.75
Paterson Zoch ......fin	10.25	Dec 6	9.2	12.6	11.45
SB ......int	2.533‡	-	2.075	-	8.6
Venturi Trust ......int	1.56	Nov 30	1.46	-	3.45
Wolseley ......fin	9.75	Jan 31	9.45	13.3	12.55

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡Third interim making 7.599p to date.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Alexandra Workwear, Barry Birch & Noble, British & American Film, English National Inv, Fleming Euro Fledgling, Forward Tech, Havelock, Hoare Govett Smaller Cos, RIT Capital Partners, St. James's Place Capital, Save & Prosper, Wensum.

Finals- Castle Comms, Cooper, Smiths Inds, UDO, Whitney Mackay-Lewis.

FUTURE DATES

Interims-	
Blacks Leisure	Oct. 25
Brunsdfle Aggregates	Oct. 21
Delaney	Oct. 27
Garrard & National	Oct. 27
Locker (T)	Nov. 18
NEC	Oct. 28
Newpeand	Oct. 29
Finals-	
Chemring	Dec. 14
Hambros	Nov. 9
Morgan Grenfell Equity	Nov. 1

Cost controls and introduction of new products behind advance

McKechnie improves to £24.5m

By Tim Burt

THE INTRODUCTION of new products and tight cost controls helped McKechnie, the international plastics and metal components group, increase pre-tax profits by 7 per cent to £24.5m in the year to July 31.

The Midlands-based group said that the growth, achieved on turnover ahead 10 per cent to £314.4m, was due to focused management rather than improving economic conditions.

Mr Michael Ost, chief executive, said: "Current trading is showing only patchy improvement and we believe it will be the second half of our financial year before any significant upturn in economic activity can be expected."

Profits before interest increased from £23.3m to £25.2m, although operating profits in the key plastics business fell from £8.5m to £5.9m. The decline, more than offset by improvements in consumer and specialist products, was blamed on a £224,000 loss on US operations compared with a £2.2m profit last time.

Tony Andrews

Michael Ost: current trading showing only patchy improvement

Mr Ost said the poor performance in the US was due mainly to restructuring costs and weak volume sales.

Management restructuring in the US, costing £1.1m, was included in "net one-time costs" which totaled £2.3m. These included £1.6m on redundancies and a £700,000 loss on foreign exchange transactions.

Gearing increased from 2 per cent to 8.4 per cent following the £47.3m acquisition of Savage Group, the UK manufacturer of home improvement products.

Savage contributed £1.2m to pre-interest profits in the 10 weeks following its acquisition.

McKechnie also purchased Accord Industries, the New Zealand machine retailer, for £1.3m and, since the year end, Phipps International, the Australian architectural hardware manufacturer, for £5m.

Mr Ost said the acquisitions in Australasia reflected the group's determination to exploit markets in the Pacific Rim, where pre-interest profits increased 46 per cent to £7.3m.

Although borrowings increased to cover these acquisitions, gearing was low enough to enable the group to consider further purchases, he added. "We're in a position to make both large and small buys."

Earnings per share advanced from 19.7p to 21.4p. An unchanged final dividend of 9.75p maintains the total at 14.75p.

● **COMMENT**

By focusing on its core activities McKechnie has managed to come through the UK recession, but adverse trading conditions – especially in plastics – means it is still having to squeeze margins and costs. It is looking at new acquisitions in Europe but is unlikely to proceed before the end of 1994. Forecast pre-tax profits of £31m next year put the shares, down 13p at 432p, on a multiple of 17.7. Although the strong balance sheet and low gearing makes them a safe investment, the company's strategy envisages only slow organic growth rather than a swift upturn in profitability.

Henry Boot bucks trend in building with £2.4m

By Catherine Milton

HENRY BOOT, the Sheffield-based construction and property company, continued to defy its debilitated sector by lifting pre-tax profits from £2.21m to £2.35m for the six months to June 30.

The shares, which have outperformed the construction sector since late 1989, eased 1p to 269p, continuing a decline from their May peak of 283p.

Earnings per share climbed to 6.3p (5.7p). The board declared an interim dividend of 1.7p (1.6p) on the strength of results so far, but said it saw little evidence of recovery.

Mr Jamie Boot, managing director, warned the government not to cut public spending in next month's budget: "It is crucial for the industry not to suffer a reduction in public expenditure on the infrastructure as the private sector is still very uncertain."

Turnover rose to £64.7m (£51.1m), reflecting improved volumes in construction and housebuilding operations.

Pre-tax margins fell to 3.63 per cent (4.32 per cent). Mr Boot said the increase in turnover had not been matched by price rises. Lower interest rates meant a reduced return on cash balances of £14.5m (£11.4m). This had been offset by improved trading profits.

Mr Boot said housebuilding reservations and completions were up on the previous half year and would remain buoyant in the full 12 months.

Civil engineering volumes were up by about 20 per cent on the previous half year and would finish ahead of the previous full year in spite of an expected weaker second half.

African side gives boost to Paterson Zochonis

By Peggy Hollinger

PATERSON Zochonis, the detergents and Cussons soap manufacturer, announced a 7 per cent increase in annual profits, from £26.7m to £28.6m pre-tax, helped by a strong contribution from Africa and a £3m increase in investment income.

Mr Alan Whittaker, finance director, said strong advances in most of the group's international businesses had helped to offset a decline in Greece. Sales for the group as a whole were 3 per cent higher at £233.4m, against £227.3m.

At the operating level, Paterson showed a 24 per cent fall to £12.3m for the year to May 31. However, 1992's figures had been flattered by a £7.3m debt repayment from the Nigerian government, leaving the underlying 1993 operating profits ahead 39 per cent.

Mr Whittaker said the African businesses had benefited from a stable Nigerian currency and higher sales. Profits from associated companies, mainly in Nigeria, more than doubled from £2.7m to £5.6m.

The UK exporting business benefited from higher sales to the Middle East and eastern Europe. In Greece, bumper olive harvests hit olive oil prices, leaving that business with lower profits.

During the year, Paterson also made its first acquisition in three years with the £3.2m purchase of a recently-privatised Polish detergents manufacturer.

This business, with estimated annual turnover of some £20m and an 8 per cent share of the Polish powder detergents market, had contributed a small profit for the two months it was included. The group expected to double capacity over three years with a £4.75m investment programme.

Mr Whittaker said the acquisition had "whetted our appetite for more in eastern Europe". Paterson has a hefty war chest, with investments in equities and currencies totalling £167.1m and a further £2.4m in cash. The buoyant stock market helped investment income rise by £3.1m to £16.4m.

The final dividend is increased to 10.25p for a total of 12.6p (11.45p). Earnings were ahead 6 per cent at 35.83p (33.79p).

Kenwood expands with £4.3m buy

KENWOOD Appliances, the Hampshire-based household appliance manufacturer, has paid £4.33m cash for Precision Engineering (Reading).

The purchase includes Waymaster, Precision's operating subsidiary, and Precision Reinforced Fibres, an associated company.

In addition to the purchase price dividends totalling £370,000 were paid to the vendors prior to completion. The acquisition will be funded by additional borrowings.

Waymaster is a manufacturer of water filters and is also an established brand in kitchen scales. The company currently supplies filter cartridges to Kenwood.

For the year to end-December 1992 Waymaster returned profits before exceptionals of £417,000 on sales of £8.8m.

The acquisition should give a small lift to Kenwood's net earnings in the current year. Mr Tim Parker, chief executive, said: "Waymaster brings important strategic benefits and significant opportunities for increased manufacturing efficiency".

S Jerome returns to the black

COST CUTTING and increased turnover enabled S Jerome & Sons (Holdings), the West Yorkshire-based spinner and weaver, to return pre-tax profits of £25,000 for the six months to June 30, against losses of £9,000.

The company is returning to the dividend list with a 0.2p interim, its first payment since 1991.

The comparative figure included £153,000 profits from its electronics business sold last year. Turnover was £12.2m (£21.5m). Turnover for continuing activities was £10.8m with pre-tax losses of £162,000.

Earnings per share came out at 0.2p (losses 0.08p).

The company said that it had received a claim from the purchase of its electronics company but it was impossible at present to assess the extent of any liability.

EIT matches benchmark with 7% net assets rise

By James Buxton, Scottish Correspondent

EDINBURGH Investment Trust yesterday announced a 3.5 per cent increase in its interim dividend from 2.85p to 2.95p.

Net asset value at the end of September was 322.5p, against 300.8p six months earlier, a rise of 7.2 per cent, compared with an advance of 7 per cent in the FT-A All-Share Index.

EIT, the second largest investment trust in the UK, said the increased dividend reflected income from its large gilts portfolio.

In addition there was strong dividend growth from its equity holdings, helped by the accelerated payment of UK dividends by many companies for tax reasons.

Net revenue for the six months to September 30 was £17m (£13.4m) for earnings per share up 26 per cent to 5.77p (4.57p).

However, Dunedin Fund Managers, the trust's manager, said the rate of increase was unlikely to be sustained over the full year, although earnings were expected to be ahead of last year's total of 9.25p.

EIT had 88.3 per cent of its equity holdings invested in the UK at the end of the half year, compared with 88.8 per cent six months earlier.

Over the half year it cut its exposure to US stocks from 5.2 per cent to 4 per cent, believing the recovery in US corporate profits was still uncertain.

The funds were reinvested in Japan and the rest of the Pacific Rim.

At the end of the six months EIT had 2.9 per cent (2.7 per cent) of its equity portfolio in continental Europe, 3.5 per cent (2.5 per cent) in Japan and 1.3 per cent (0.8 per cent) in the rest of the Pacific basin.

Gross revenue rose to £30.5m (£24.8m), helped by investment income ahead at £29.7m (£20.9m). That was partly offset by a fall in interest on deposits to £503,000 (£3.7m).

Govett Oriental assets up 30%

By Philip Coggan, Personal Finance Editor

THE STRONG performance of Far Eastern stock markets helped Govett Oriental Investment Trust to increase net assets per share by 30 per cent over the six months to September 30.

At 341.01p per share the net asset value was 83 per cent higher than the 186.3p of a year earlier.

The result makes it the best performing investment trust in its sector of Far East, including Japan, over the year to October 1, based on mid-market to mid-market valuations with net income reinvested, according to Micropal.

Mr Charles Fowler, who manages the trust, said the geographical split of assets at the end of September was Japan (25 per cent), Malaysia (13.3), Singapore (12.6), Hong Kong (12.5), Korea (9), Indonesia (5.7), Taiwan (4.6), Thailand (4.4), Australia (3.8), UK (3.3), Philippines (3.1), India (1.0) and others (3.5).

The trust's performance during the year benefited from the high weightings in Malaysia, Singapore and Indonesia, accordingly to Mr Fowler, although he has gradually reduced his holdings in those countries in the wake of the rapid rise in share prices.

Total net assets at the end of September were £612.7m, making Govett Oriental one of the UK's largest investment trusts.

Revenue attributable to shareholders in the six months to the end of September was £1.81m, against £1.77m, equivalent to earnings per share of 1p (0.98p).

The interim dividend is maintained at 0.4p.

COMMODITIES AND AGRICULTURE

Aluminium industry 'needs help' to stem CIS flood

By Kenneth Gooding, Mining Correspondent

THE DEVASTATING economic disruption to the aluminium market caused by the collapse of the former Soviet Union may well be beyond the resources of the world aluminium industry to handle.

This warning was given last night by Mr David Morton, chairman of Alcan Aluminium of Canada, the second-biggest producer of the metal. "Unless the problem is tackled on a concerted and negotiated basis, the current conditions are likely to persist and bring this industry to its knees," he said.

He pointed out that, following a surge in annual exports from the Commonwealth of Independent States to about 1m tonnes – three to four times what they were in 1990 – western stocks had grown to 2m tonnes and prices had dropped by about half. Most of the world's aluminium smelters were operating a below even their cash costs.

The western industry had already made production cuts of 1.4m tonnes a year – nearly 10 per cent of its capacity – yet stocks continued to accumulate at the rate of 1.8m tonnes a year. "Thus, against a background of slow growth in demand, a correction to this surplus by western world producers would require a further cut back of about 15 per cent to 20 per cent of its production capacity – a staggering requirement."

Speaking at the annual dinner of the UK Aluminium Federation in London, he added: "I believe it may require western governments to jointly pursue negotiations with the CIS governments to establish some rules of transition which will enable the CIS aluminium industry to be integrated into the world industry on the same terms and conditions on which western producers now operate".

The European Commission's recent decision to impose restrictions on CIS aluminium imports, was of little or no use, Mr Morton said. "This merely diverts the problem. When you are filling a bath, it does not matter from which end you fill it. What matters is the level of the bathwater."

He was speaking two days before multilateral talks are to begin in Moscow about the issue of CIS aluminium exports – figures of 1.5m to 2m tonnes are being mentioned for this year – and how the world industry might make production adjustments to help absorb stocks.

'Fine' deepens copper 'squeeze' mystery

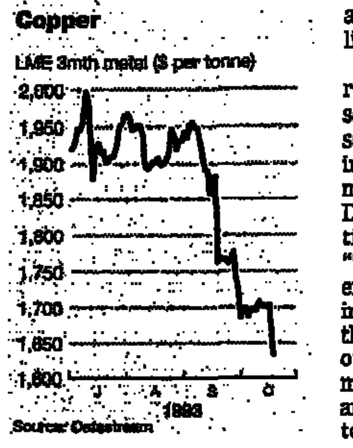
Kenneth Gooding on the aftermath of alleged London Metal Exchange manipulation

AN EXTRAORDINARY coda to the "squeeze" on the London Metal Exchange's copper market has raised more questions rather than providing satisfactory answers. The supply squeeze was maintained through June, July and August amid widespread suggestions that the market was being manipulated to keep the copper price up.

Last week, in an unprecedented move, Credit Lyonnaise Rouse, part of the French banking group, apologised to the LME for its part in the squeeze and said it had paid £100,000 towards the exchange's costs.

This is a large enough sum for traders refer to it as a "fine".

They are also pointing out that CLR's long list of blue chip clients includes Sumitomo Corporation, for which CLR acts as clearing broker. At the height of the squeeze traders suggested that Sumitomo was mainly responsible and had options on most of the LME copper stocks. Mr Yasuo Hamanaka, the senior Sumitomo manager responsible for copper trading, denied any manipulation was going on and said the tightness was caused by complex technical factors associated with a previous sharp fall in copper prices.



Both CLR and the LME have agreed to provide no further comment on or illumination of this agreed statement. But the incident gives some clues about how the exchange can head off what it calls "undesirable" situations in its metals markets and stop manipulation when necessary.

It paved the way in April 1991 with the introduction of its so-called "large postion reporting system" where traders are required to report to the LME daily any futures and options positions, held for their own or named clients accounts, that exceed certain limits.

These highly-confidential reports, seen by only very senior members of the LME's secretariat, give advance warning of squeezes and attempts to manipulate the market. Mr David King, LME chief executive, explained at the time: "The idea is to give the exchange a better understanding of what is taking place in the market. It is in line with our statutory obligation to maintain an orderly market and shows our determination to keep the market orderly while sticking to our fundamental principal of not interfering with free market forces."

During the recent copper squeeze the LME board issued two public warnings but to no avail. Then on September 8 the board decided to take action "in anticipation of the development of an undesireable situation in the copper market," and limited the daily backwardation (premium for immediate delivery over forward prices) to $5 a tonne.

There have been previous squeezes in LME metals markets but never before has the exchange felt it necessary publicly to reprimand or to seek apology from any of the organisations involved.

CLR's apology illustrates an important point: while the LME does not have the power to control the activities of some of the large organisations with deep pockets that use its metals markets, that business eventually has to be cleared with an exchange member – and the LME does have the right to force an exchange member to toe the line.

This message will not have been lost on the LME's other 16 ring-dealing members.

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+12,225	to 2,250,275
Copper	+2,450	to 603,700
Lead	-1,575	to 288,850
Nickel	+54	to 116,494
Zinc	+1,375	to 814,500
Tin	-95	to 20,570

The question remains: what did CLR do to upset the LME so much?

In the agreed statement CLR apologised for its involvement "in the development of the situation in the copper market" and added, "CLR accepts that that situation could have been interpreted as involving an undue influence over the market but CLR took no action because it was satisfied no such undue influence was or would be exercised".

So was it simply a simple case of human error, misunderstandings and crossed wires? This is hard to believe because, although CLR became a ring-dealing member of the LME as recently as January this year, the Rouse organisation has a long history in commodity markets.

However, traders recall that during the squeeze CLR was giving the copper market some liquidity by lending to the market and it maybe CLR believed that was enough to prevent an "undesirable" situation developing.

The LME executive undoubtedly spent some money investigating what it must have first thought of as a nefarious scheme, but the £100,000 CLR is contributing towards those costs is undoubtedly generous – hence traders' view that it was a fine. However, in view of the LME's determination firmly to close the book on this issue, we will probably never know.

Mr King said yesterday: "We worked in close consort with other regulators on this and both they and we are satisfied with the outcome. The matter is now closed."

Poultry producers join Blair House revisionists

By Deborah Hargreaves

EUROPEAN POULTRY producers are lining up behind French farmers' calls for amendments to the Blair House agreement which they say inadvertently penalises their business.

The Blair House agreement, which was agreed as part of Uruguay Round talks on the General Agreement on Tariffs and Trade, requires cuts in cereals subsidies of 21 per cent over 6 years. It also means cuts in export refunds awarded to European Community poultry producers when they export outside the community.

Export refunds, which at present amount to some 15p a lb for fresh and frozen chickens, are to compensate EC producers for the cost of buying grain for feed at high prices. EC grain subsidies ensure that community prices are higher than the world market.

"Poultry producers do not receive direct income or production support from the government under the CAP, but we are having to pay prices way above the world market for feedstuffs," said Mr Peter Bradnock, director-general of the British Poultry Meat Federation.

The withdrawal of export refunds would affect around 40 per cent of the EC's 480,000 tonnes of exports outside the community. It would make it extremely difficult for producers to compete in many markets overseas since high feed costs account for almost 60 per cent of their production costs.

Europe's main poultry producers in France, the UK and Italy have agreed to lobby their national governments on the issue.

UK poultry producers are to meet Mrs Gillian Shephard, agriculture minister, today to discuss the export business. "We'd like a mechanism where we could obtain supplies of feedstuffs at world prices for our export stock," said Mr Bradnock. The industry also wants the export refunds to be reduced more gradually over the 6 year period.

Barley subsidy angers Australia

By Nikki Tait in Sydney

THE AUSTRALIAN government yesterday protested strongly against the US authorities' decision to extend its "export enhancement" subsidy programme for barley to China, a key export market for Australian growers.

The barley programme has been set at 3.375m tonnes, allocated across 14 countries and regions, and will be effective until September next year. Two of the countries – China, allocated 100,000 of malting barley, and Romania – were not previously eligible for EEP subsidies on barley.

"The inclusion of China, Australia's most important market for malting barley, is a particularly unhappy development," said Mr Gareth Evans, the Australian Foreign Affairs minister, and Mr Michael Lee, acting minister for Primary Industries and Energy in a joint statement.

Australia shipped some 400,000 tonnes of malting barley to China in 1992-93, about half its export total.

Crunch time in the world nuts market

Alison Maitland on shortages that are driving up almond, peanut and hazlenut prices

WHEN YOU buy your box of mixed nuts this Christmas, you could find it contains an unusually large proportion of Brazil nuts. Look carefully – the almonds, hazelnuts and even peanuts could be on the short side.

The reason is a rare coincidence of problems in the nut market that has caused a near doubling in the prices of almonds and peanuts and a sharp, though slightly less dramatic, rise in the cost of hazelnuts.

"In most years we'll get one of our markets thrust into turmoil because of some supply side problem or a political problem," says Mr Peter Morgan, edible nut trader for London importers Barrow, Lane and Ballard. "To have so many of them up in arms is unusual."

Mr Morgan's company handles about 40,000 tonnes of peanuts a year, buying from around the world for customers mainly in the UK, the Netherlands, Germany and Canada.

The price of American peanuts shot up from about $800 a tonne in the early spring to a peak of $1,500 following this summer's drought, which particularly affected growing regions in the south-western states of Virginia, North Carolina, Georgia and Alabama.

Prices have settled back slightly to around $1,450 a tonne, but that is still way out of proportion to the actual shortfall in US production of about 15 per cent, says Mr Morgan.

The distortion arises from the US quota system, under which three-quarters of the harvest are purchased from farmers at high support prices for the domestic market. The remainder receives lower support prices and goes for crushing or export.

The harvest is expected to be down about 300,000 tonnes on the usual level at about 1.7m tonnes. But because farmers will sell for the domestic market first, exports are likely to drop by some 60 per cent, Mr Morgan says.

Buyers are beginning to turn for peanuts to other countries, such as Argentina and China, where supplies are available at prices about $200 and about $400 a tonne respectively less than those for US produce.

Interestingly, given the existence of the North American Free Trade Agreement, some Canadian buyers are switching from American to Chinese peanuts, even though the latter are regarded as being of lower quality.

"This is the fifth year since 1980 when we've had a real or false alarm," says Mr Morgan. "I'll have too many grey hairs if it goes on much longer."

Peanuts are particularly important for snacks and cocktail "eats", as well as being ingredients in confectionery and peanut butter. Almonds and hazelnuts are vital for the baking and confectionery industries, with almonds particularly used by the huge marzipan market in Germany and the Netherlands.

So all sectors of the nut-processing industry have been affected.

Almond prices have been pushed sky-high by problems with the crop in California, the world's main growing region. Wind damage has caused a shortfall of 50m lb from a normal crop of about 550m lb and sent prices soaring from about £3,500 a tonne in early August to about £4,000 a tonne, twice the level a year ago, according to Mr Brian Newson, who runs the nut operation for Combined Shipping and Trading, a London-based commodities trading company.

"I think it's gone too high on the evidence of that news," says Mr Newson. "We're finding strong consumer resistance. These high levels have come as a bolt from the blue."

Hazelnut prices have been rising on expectations of a poor crop in Turkey, which produces about 70 per cent of world supply, and in the main European growing countries, Italy and Spain.

Harvesting starts this month and in September prices shot up from about £1,800 a tonne to as much as £3,000 a tonne, before settling back to about £2,300.

"It was a wild situation," says Mr Newson. "I can't remember prices spiralling to that sort of level in such a short time."

The irony is that Turkey is sitting on a buffer stock of about 130,000 tonnes, apparently waiting for higher prices. "The European Community is pressing them to release some of that crop to assist the market," Mr Newson says.

Among other nuts, cashew prices are beginning to rise because of fears of a shortfall in the forthcoming Brazilian harvest, and macadamias, increasingly popular as an exotic cocktail nut, have been driven up in the past six months by crop problems. Brazils, on the other hand, remain relatively cheap.

But the Christmas box of mixed nuts is unlikely to reflect these price increases because processors tend to have forward cover until about January or February, according to commodity experts.

That is when consumers could start to feel the crunch. "It's very difficult to get price increases pre-Christmas," says Mr Yoav Gottesman, chief executive of JLI Group, the UK food processing group. "But most supermarkets are aware that prices will have to move in January.

"The impact of the devaluation of the pound – because most nuts are traded in dollars – and of the absolute price rises in dollars could mean a double whammy."

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,570-1,615 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.30-2.50 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.39-0.44.

COBALT: MB free market, 99.8 per cent, $ per lb, in warehouse, 11.60-12.15 (11.80-12.20); 99.3 per cent, $ per lb, in warehouse, 10.70-11.25 (10.80-11.30).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 95-110 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.52-2.62 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.45-5.25.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 27-37 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 1.30-1.45 (same).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 6.90 (same).

WORLD COMMODITIES PRICES

MARKET REPORT

The **GOLD** price recoiled from resistance just below $369 a troy ounce yesterday afternoon. But after subsiding by nearly $5 it recovered to close in London at $367, just 50 cents down on the day. Dealers attributed the retreat to long-liquidation by US investment funds following Monday's rally. **PLATINUM** ended within $1.25 of the day's high, closing at $372 an ounce, after finding support below $370. The London afternoon fix had been at $373.25 an ounce, up $6.30 from the same point on Monday, although dealers noted that there was little physical business being done. At the London Metal Exchange the **COPPER** market extended its decline, reaching 6-year lows before steadying a little to close at $1,632.50 for three months metal, down $25 on the day. The market remained bearish on fundamental and technical grounds, dealers said, and the likelihood was that the price would head for $1,600 soon. The **NICKEL** market continued the retreat that has followed the recent rally, the three months price closing another $95 down at $4,570 a tonne. But it was still $440 above the recent 6¾-year low.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Dec)		**+ or -**
Dubai	$14.85-4.95u	+0.01
Brent Blend (dated)	$16.54-6.56	+0.03
Brent Blend (Dec)	$16.94-6.96	+0.03
W.T.I (1 pm est)	$18.30-8.32u	+0.005
Oil products (NWE prompt delivery per tonne CIF		**+ or -**
Premium Gasoline	$190-192	-2
Gas Oil	$175-176	-1
Heavy Fuel Oil	$61-63	
Naphtha	$159-161	
Petroleum Argus Estimates		
Other		**+ or -**
Gold (per troy oz)♣	$367.00	-0.5
Silver (per troy oz)♣	438.5c	-3
Platinum (per troy oz)	$373.25	+6.3
Palladium (per troy oz)	$132.75	+2.25
Copper (US Producer)	85.0c	-0.5
Lead (US Producer)	33.50c	
Tin (Kuala Lumpur market)	12.25m	+0.10
Tin (New York)	222.5c	
Zinc (US Prime Western)	Unq	
Cattle (live weight)†	117.47p	+1.76*
Sheep (live weight)†♠	80.68p	+1.46*
Pigs (live weight)†	54.81p	+1.75*
London daily sugar (raw)	$258.80	-7.2
London daily sugar (white)	$288.00	-6
Tate and Lyle export price	£284.50	-4
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£120.0	
Wheat (US Dark Northern)	£166.5	
Rubber (Nov)♥	60.00p	
Rubber (Dec)♥	60.25p	
Rubber (KL RSS No 1 Jul)	205.0m	
Coconut oil (Philippines)§	$430.0v	+5
Palm Oil (Malaysian)§	$342.5u	
Copra (Philippines)§	$270.0	
Soyabeans (US)	£169.0	+1.5
Cotton "A" index	54.50c	-0.15
Wooltops (64s Super)	324p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. z-Nov v-Jan/Feb u-Dec t-Sep/Oct ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♠Sheep prices are now live weight prices * change from a week ago, provisional prices.

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low	
Dec	16.86	1682	17.03	16.87
Jan	17.15	1702	17.21	17.12
Feb	17.30	1718	17.35	17.27
Mar	17.40	1730	17.44	17.35
Apr	17.50	1741	17.54	17.47
May	17.62	1745	17.62	
IPE Index	16.95	1709		

Turnover 13042 (18568)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low	
Nov	169.25	170.25	170.75	169.00
Dec	169.50	170.50	171.00	169.25
Jan	169.50	170.00	170.50	169.00
Feb	168.50	169.25	169.50	168.00
Mar	167.00	167.75	167.75	167.50
Jun	163.00	163.50	164.00	163.00

Turnover 14642 (9356) lots of 100 tonnes

SUGAR – LCE ($ per tonne)

White	Latest	Previous	High/Low	
Dec	278.00	276.40	278.50	276.00
Mar	276.00	275.20	276.80	275.00
May	279.30	278.10	280.20	278.00
Aug	283.10	282.30	283.20	282.00

Turnover 891 (1672) Paris- White (FFr per tonne): Dec 1612.30 Mar 1616.12

COTTON

LIVERPOOL-No spot or shipment sales were recorded for the week ended 15 October against 32 tonnes in the previous week. Activity was severely restrained and business was on narrow lines. Cost of raw cotton deterred users from increasing their purchases

JUTE

C and F Dundee; BTC US$365, BWC US$ 395, BTD US$ 340, BWD US$380. C and F Antwerp; BTC US$ 350, BWC US$ 350, BTD US$ 330, BWD US$ 330.

No.7 RAW SUGAR - LCE (cents/lbs)

	Close	Previous	High/Low	
Jul	11.05	10.92	11.05	10.99

Turnover 1036 (137) lots of 50 tonnes.

COCOA – LCE £/tonne

	Close	Previous	High/Low	
Dec	925	916	925	912
Mar	952	944	955	942
May	957	950	962	952
Jul	958	954	963	957
Sep	960	957	964	956
Dec	947	944	954	942
Mar	951	942	960	948
May	954	948	958	955
Jul	955		962	958

Turnover: 5279 (3138)lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Oct 18 905.01 (908.92) 10 day average for Oct 19 906.78 (910.76)

COFFEE – LCE $/tonne

	Close	Previous	High/Low	
Nov	1206	1201	1230	1190
Jan	1225	1216	1242	1205
Mar	1210	1196	1220	1180
May	1187	1184	1217	1180

Turnover: 4099 (4775) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Oct 18 Comp. daily 69.70 (67.57) 15 day average 67.40 (67.48)

POTATOES – LCE £/tonne

	Close	Previous	High/Low	
Mar	117.5	120.0	125.0	125.0
Apr	90.0	87.6	90.0	86.5
May	103.8	101.9	103.7	102.0

Turnover 93 (222) lots of 20 tonnes.

FREIGHT – LCE $10/index point

	Close	Previous	High/Low	
Oct	1353	1363	1355	1350
Nov	1368	1388	1385	1365
Dec	1365	1390	1385	1365
Jan	1368	1393	1385	1365
Apr	1385	1403	1382	1380
Jul	1215	1230	1220	
Oct	1390		1400	
BFI	1373	1377		

Turnover 222 (218)

GRAINS – LCE £/tonne

Wheat	Close	Previous	High/Low	
Nov	99.90	100.60	101.00	99.90
Jan	101.85	102.35	102.90	101.85
Mar	103.50	104.05	104.50	103.55
May	105.25	106.00	106.40	105.50
Barley	**Close**	**Previous**	**High/Low**	
Nov	101.50		101.50	
Jan	103.50		103.50	
May	107.25		107.50	

Turnover: Wheat 245 (165) Barley 34 (10)
Turnover lots of 100 Tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 45,504 lots
Cash	1091-92	1102.5-03.5		1091-92		
3 months	1112-12.5	1123.5-24	1118/1112	1112-12.5	1113-14	244,512 lots
Copper, Grade A ($ per tonne)						Total daily turnover 83,244 lots
Cash	1608-09	1632-33		1610-11		
3 months	1632-33	1657-58	1650/1626	1634-35	1636-37	178,948 lots
Lead ($ per tonne)						Total daily turnover 5,513 lots
Cash	381.5-82	389-90		384.5-85		
3 months	395-96	403-3.5	400/395	398-99	399-400	23,565 lots
Nickel ($ per tonne)						Total daily turnover 14,919lots
Cash	4512-17	4600-610		4475-80		
3 months	4565-75	4660-70	4630/4520	4535-40	4570-80	45,575 lots
Tin ($ per tonne)						Total daily turnover 4,017 lots
Cash	4838-42	4770-80		4805-10		
3 months	4888-90	4820-25	4900/4820	4850-60	4870-80	12,199 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 27,275 lots
Cash	924-25	928-30	922	922-22.5		
3 months	941-42	946-47	948/937	938.5-39	947-48	88,305 lots

LME Closing £/$ rate: SPOT: 1.4915 3 months: 1.4825 6 months: 1.4753 9 months: 1.4689

LME AM Official £/$ spot rate 1.4897

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (troy oz)	$ price	£ equivalent
Close	366.75-367.25	
Opening	368.30-368.70	
Morning fix	368.85	247.560
Afternoon fix	366.40	246.435
Day's high	369.00-369.50	
Day's low	364.50-365.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.74	6 months	2.65
2 months	2.70	12 months	2.68
3 months	2.65		

Silver fix	p/troy oz	US cts equiv
Spot	299.00	445.35
3 months	302.95	448.55
6 months	306.80	452.10
12 months	314.75	460.00

GOLD COINS

	$ price	£ equivalent
Krugerrand	370.00-373.00	248.00-251.00
Maple leaf	377.10-379.45	
New Sovereign	86.00-89.00	57.00-60.00

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Dec	Mar	Dec	Mar
1100	22	46	16	21
1125	11	33	30	32
1150	5	22	48	46
Copper (Grade A)	**Calls**		**Puts**	
1600	50	85	20	34
1650	24	58	44	58
1700	10	37	79	84
Coffee LCE	**Nov**	**Jan**	**Nov**	**Jan**
1150	56	110		35
1200	13	80	7	55
1250		58	44	61
Cocoa LCE	**Dec**	**Mar**	**Dec**	**Mar**
900	46	92	21	40
925	32	77	32	50
950	22	64	47	62
Brent Crude	**Dec**	**Jan**	**Dec**	**Jan**
1650			18	26
1700	32		36	45
1750	14	36		

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Oct	369.1	368.3	0	0
Nov	369.4	368.7	0	0
Dec	370.3	369.6	370.8	365.8
Feb	372.1	371.4	372.3	368.0
Apr	373.9	369.8	374.0	370.5
Jun	375.6	374.9	375.6	373.5
Aug	377.4	376.7	0	0
Oct	379.2	378.5	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	372.9	370.4	0	0
Nov	363.0	363.0	0	0
Jan	375.4	372.9	378.5	372.0
Apr	377.2	374.6	378.0	374.0
Jul	378.2	375.6	378.0	376.5
Oct	379.7	377.1	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Oct	441.2	440.7	0	0
Nov	442.8	442.3	0	0
Dec	443.0	442.5	445.0	434.0
Jan	444.2	443.7	0	0
Mar	447.2	446.7	449.0	438.0
May	450.1	449.6	450.5	443.0
Jul	453.0	452.5	450.0	447.0
Sep	455.9	455.4	0	0
Dec	460.4	459.9	464.0	453.0
Jan	461.6	461.1	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	72.40	73.25	72.40	72.40
Nov	72.80	73.50	0	0
Dec	73.15	73.88	73.45	72.70
Jan	73.45	74.15	73.40	73.20
Feb	73.76	74.45	0	0
Mar	74.05	74.70	74.25	73.90
Apr	74.35	75.00	0	0
May	74.65	75.30	74.70	74.20
Jun	74.95	75.60	75.00	75.00
Jul	75.25	75.90	75.45	75.00

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Nov	18.09	18.13	18.25	18.05
Dec	18.32	18.26	18.38	18.23
Jan	18.50	18.39	18.52	18.39
Feb	18.61	18.51	18.63	18.54
Mar	18.75	18.63	18.75	18.64
Apr	18.85	18.74	18.84	18.78
May	18.94	18.84	18.94	18.84
Jun	19.05	18.93	19.06	19.03
Jul	19.10	19.00	19.10	19.10
Aug	19.13	19.07	19.13	19.11

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Nov	54.30	53.88	54.60	53.80
Dec	55.10	54.70	55.40	54.70
Jan	55.60	55.30	55.95	55.40
Feb	55.80	55.35	56.00	55.50
Mar	54.91	54.55	55.20	54.70
Apr	54.00	53.50	53.80	53.80
May	53.15	52.50	53.05	52.90
Jun	52.45	51.95	0	0
Jul	52.60	52.10	0	0
Aug	52.65	52.65	0	0

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Dec	1136	1125	1152	1118
Mar	1172	1167	1187	1159
May	1188	1177	1200	1175
Jul	1206	1204	1212	1195
Sep	1223	1220	1212	1210
Dec	1237	1234	1252	1241
Mar	1243	1246	1253	1245
May	1257	1260	1268	1255
Jul	1271	1274	1276	1270
Sep	1290	1293	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	76.30	78.15	78.50	76.10
Mar	78.85	80.45	80.70	78.65
May	80.10	81.95	81.90	80.00
Jul	81.45	83.30	82.50	82.00
Sep	82.80	84.60	83.60	83.40
Dec	85.05	86.75	85.25	85.25
Mar	88.00	89.25	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	10.33	10.24	10.34	10.24
May	10.52	10.44	10.52	10.43
Jul	10.55	10.49	10.56	10.46
Oct	10.57	10.47	10.58	10.49

COTTON 50,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	57.17	57.40	57.65	57.15
Mar	58.78	59.05	59.20	58.75
May	59.70	59.85	60.05	59.70
Jul	60.20	60.40	60.58	60.10
Oct	61.02	60.90	0	0
Dec	61.15	61.00	61.15	60.86
Mar	61.00	61.60	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Nov	114.30	114.75	115.05	113.95
Jan	117.25	117.60	117.95	116.75
Mar	119.20	119.60	120.10	119.20
May	121.00	121.25	121.50	121.00
Jul	122.25	122.50	122.25	121.50
Sep	123.00	123.20	0	0
Nov	121.00	121.25	0	0
Jan	121.00	121.25	0	0

INDICES

REUTERS (Base:September 18 1931 = 100)

Oct 19	Oct 18	mnth ago	yr ago
1582.5	1581.2	1595.4	1621.0

DOW JONES (Base: Dec. 31 1974 = 100)

	Oct 18	Oct 15	mnth ago	yr ago
Spot	118.36	117.40	121.88	113.95
Futures	128.56	128.01	125.88	115.11

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Nov	614/6	617/4	619/2	614/0
Jan	621/6	624/2	626/0	621/2
Mar	628/6	631/0	633/0	626/0
May	633/2	635/0	636/4	632/4
Jul	636/4	638/2	640/4	636/2
Aug	635/6	637/4	639/0	635/4
Sep	624/6	625/4	627/4	624/6
Nov	617/0	617/4	619/0	616/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Oct	22.87	22.69	22.97	22.58
Dec	22.94	22.87	23.10	22.86
Jan	23.03	22.92	23.15	22.80
Mar	23.17	23.15	23.26	22.92
May	23.14	23.19	23.30	23.00
Jul	23.10	23.19	23.27	23.01
Aug	22.90	23.05	23.05	22.90
Sep	22.70	22.87	23.00	22.70

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Oct	193.5	194.5	195.0	193.5
Dec	190.7	192.4	192.8	190.5
Jan	190.8	192.3	192.6	190.5
Mar	191.5	193.1	193.5	191.4
May	192.9	194.3	194.8	192.9
Jul	194.8	195.7	196.3	194.7
Aug	194.8	195.6	196.2	194.8
Sep	194.7	195.5	195.8	194.7

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	254/0	253/0	255/2	252/6
Mar	262/2	261/2	263/4	260/6
May	266/4	265/0	267/4	264/6
Jul	268/4	267/0	269/2	267/0
Sep	261/0	259/4	261/2	259/6
Dec	254/4	253/2	254/4	253/2
Mar	260/6	259/4	260/6	260/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	330/2	328/0	331/0	326/6
Mar	328/2	328/0	329/4	326/0
May	319/2	319/6	319/6	318/0
Jul	309/4	310/0	310/2	306/4
Sep	313/4	314/4	0	0
Dec	321/4	321/4	321/4	320/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	73.325	73.200	73.600	73.300
Dec	74.700	74.700	75.000	74.550
Feb	75.175	75.375	75.450	74.950
Apr	76.100	76.375	76.500	76.050
Jun	73.125	73.325	73.475	73.100
Aug	71.500	71.750	71.850	71.500
Oct	71.950	72.150	72.300	71.925

LIVE HOGS 40,000 lb; cents/lbs

	Close	Previous	High/Low	
Oct	48.275	48.250	48.500	47.950
Dec	49.650	49.950	50.050	49.575
Feb	50.075	50.100	50.250	49.700
Apr	48.075	48.150	48.250	47.925
Jun	52.400	52.500	52.500	52.250
Jul	51.350	51.450	51.550	51.225
Aug	49.750	49.800	49.750	49.650
Oct	45.725	45.900	0	45.600

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	57.825	58.350	58.550	57.675
Mar	57.600	58.125	58.300	57.525
May	57.900	57.800	58.500	57.700
Jul	58.725	58.500	58.750	58.100
Aug	57.325	57.325	0	56.750

LONDON STOCK EXCHANGE

Profit-taking unsettles equity market

By Steve Thompson

THE London equity market battled in vain against downward forces yesterday and was finally forced to concede ground after the recent outstanding performance which has seen share prices hitting new records for the past two trading sessions.

Some senior market traders emphasised, however, that a modest decline in prices yesterday was merely a period of consolidation before a further strong upward move.

Others were at odds with the bullish view, and said the London market was only one of a number of international markets, most notably Wall Street, that had run too far too fast and that a substantial correction was on the cards.

The bearish pressures affecting London included a handful of rather gloomy surveys on retail sales and consumer confidence from influential sources such as the Confederation of British Industry and Gallup, as well as a sharp decline on the recently buoyant Hong Kong stock market.

The two surveys tended to increase worries around the market that the recovery in the UK economy may be faltering, a view which began to gather strength last week in the wake of a batch of economic data showing a decline in manufacturing output and another rise in inflation.

There was very little pressure on share prices as the market opened with traders tentatively moving quotations higher in response to yet another good showing by Wall Street overnight.

The US market performed well on Monday, coming within 10 points or so of its all-time record and was within an ace of bursting into uncharted territory shortly after London closed yesterday.

The FT-SE 100 officially opened just over three points higher before running into a flurry of pressure said to have been triggered by aggressive selling of the Footsie future. The pressure in the futures market was thought by dealers to have represented one of the leading UK securities houses adjusting its market positions to accommodate a large trading programme subsequently executed in the cash market. At its worst, the Footsie was down almost 14 points and looking extremely ragged.

Once the futures selling was done, however, the market began to regain its composure, to the extent that the Footsie moved briefly back into positive territory at midday.

Sentiment began to falter again almost immediately, but there was very little selling pressure evident. Prices went into a gentle decline which left the FT-SE 100 Index down 8.0 at the close at 3,129.6. The FT-SE Mid 250 Index, meanwhile, put on a similarly resilient performance, closing only a fraction off at 3,486.8.

Turnover in the market held up well, in spite of what was seen by some dealers as signs that the market had run out of steam. Some 658.2m shares were traded yesterday, just short of Monday's level, with non-Footsie stocks accounting for more than 403m shares.

The value of customer business transacted on Monday was a creditable £1.33bn, indicating that the big domestic and overseas instititions have continued to pump money into the market.

Drug stocks were the market's undoubted stars yesterday, closely followed by the oil majors, with both sectors responding to the pound's weakness and the consequent strengthening of the dollar.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ASDA Group†	13,000	52½	-2
Abbey National†	1,600	414	-8
Albert Fisher	3,200	78	+2
Allied-Lyons†	7,100	582	-8
Anglian Water†	1,500	557	+2
Argos	821	344	-4
Argyll Group†	4,000	294	-3
Arjo Wiggins†	2,100	219	-1
Assoc. Brit. Foods†	27	474	-4
Ass. Brit. Ports	122	464	+3
BAA†	882	989	+5
BAT Inds.†	3,700	479	-10
BET	4,000	130½	-1
[illegible]	[illegible]	[illegible]	[illegible]
Bowater†	3,800	440	-12
Brit. Aerospace†	1,500	409	+3
British Airways†	1,000	363	-2
British Gas†	6,000	325½	-2½
British Land	888	413	-3
British Steel†	3,000	124½	
Bunzl	1,500	146	-5
Burmah Castrol†	305	760	-1
Burton	1,800	78½	-½
Cable & Wire.†	2,500	952	-22
Cadbury Schweppes†	1,400	482	+8
Calor Group	29	277	
Carlton Comms.†	1,000	758	-12
Coats Viyella†	1,500	268	
Comm. Union†	2,100	625	+1
Cookson	116	203	
Courtaulds†	1,300	494	
Dalgety	677	485	+8
De La Rue	198	780	
Delta	1,400	277	-5
Eastern Elect.	622	600	-1
East Midland Elect.	615	586	+2
Eng China Clays	657	400	
Enterprise Oil†	1,500	499	+9
Eurotunnel Units	29	474	
FKI	1,900	189	
Fisons	2,100	182	-2
Foreign & Col. I.T.	1,400	208	+4
Forte†	1,300	219	-8
Gen. Accident†	1,200	707	-14
[illegible]	[illegible]	[illegible]	[illegible]
Hanson Crosfield	1,300	187	-3
Hillsdown	1,100	158	-3
IMI	660	278	-8
ICI†	814	727	-8
Inchcape†	888	524	-2
Johnson Matthey	133	498	+4
Kingfisher†	2,200	642	-8
Kwik Save	217	680	-5
Ladbroke†	2,800	184	-4
Land Securities†	481	714	
Laporte	537	692	+5
Legal & General†	882	523	+1
Lloyds Abbey	68	454	
Lloyds Bank†	4,300	589	-10
LASMO	2,800	141	
London Elect.	642	595	-4
Lonrho	8,600	130½	+2½
Lucas	3,200	186	-3
MB Caradon†	972	335	
MEPC†	2,100	516	+3
MFI	3,400	146	-3
Manweb	484	650	
Marks & Spencer†	2,500	400	-5
Midlands Elect.	630	623	+8½
Morrison (Wm.)	2,400	97	-3
NFC†	1,500	206	-3
NatWest Bank†	6,900	559	-10
National Power†	3,600	412	-½
Next	255	180	-2
North West Water†	1,300	582	+8
Northern Elect.	77	845	-3
[illegible]	[illegible]	[illegible]	[illegible]
Redland†	1,800	541	-4
Reed Intl.†	578	742	-2
Rentokil†	342	207	-2
Reuters†	816	1591	
Rolls Royce†	4,800	147½	-4½
Rothmans†	3,200	602	-8
Ryl Bk Scotland†	1,400	347	+1
Royal Insurance†	1,300	319	
Sainsbury†	1,600	409	-5
Schroders†	358	1263	-10
Scottish & New.†	2,700	460	+3
Scot. Hydro-Elect.	512	404	+5
Scottish Power†	4,300	403	+7
Sears†	1,800	113	-2
Sedgwick	1,600	179	-2
Seeboard	173	651	+2
Severn Trent Water†	1,600	589	+1
Shell Transport†	6,800	708	+7½
Siebe†	986	635	-3
Slough Ests	290	257	-3
Smith (W.H.) A	1,200	470	+1
Smith & Nephew†	2,400	139	+1
SmKl Beecham†	4,800	414	+9
SmKl Beecham Uts.†	2,500	372	+9
Smiths Inds.	964	365	-1
Southern Elect.	630	606	-5
South Wales Elect.	351	692	+14
South West Water	416	613	+16
South West. Elect.	92	806	-4
Southern Water	495	611	+6
Standard Chartd.†	620	1020	-4
[illegible]	[illegible]	204	
[illegible]	[illegible]	379	-4
[illegible]	[illegible]	182	-1
[illegible]	[illegible]	349	+2
[illegible]	[illegible]	219	-2½
[illegible]	[illegible]	140	-1
[illegible]	[illegible]	367	-2
[illegible]	[illegible]	125	-3
[illegible]	[illegible]	208	+3
[illegible]	[illegible]	674	-2
[illegible]	[illegible]	905	-6
[illegible]	[illegible]	239	+4
[illegible]	[illegible]	88	+3
Trafalgar House	6,100	88	+3
Unigate	581	383	+6
Unilever†	3,300	1120	
United Biscuits†	601	386	+2
Utd. Newspapers	112	538	-1
Vodafone†	4,100	560½	-11
Warburg (SG)†	1,000	884	-12
Wellcome†	1,900	775	+9
Welsh Water	480	650	+4
Wessex Water	291	667	+10
Whitbread 'A'†	675	528	+1
Williams Hldgs.†	1,200	325	-2
Willis Corroon	840	221	+2
Wimpey	869	168	+1
Wolseley†	1,500	692	+18
Yorkshire Elect.	425	828	-3
Yorkshire Water	487	585	-1
Zeneca†	3,200	777	+24

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates

*First Dealings:		
Oct 4	Oct 18	Nov 1
Option Declarations:		
Oct 14	Oct 28	Nov 11
Last Dealings:		
Oct 15	Oct 29	Nov 12
Account Day:		
Oct 25	Nov 8	Nov 22

*New time dealings may take place from two business days earlier.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
3129.6 -8.0	3486.8 -0.1	1545.92 -2.86

	Oct 19	Day's change %	Oct 18	Oct 15	Oct 14	Year ago	Dividend yield %	Earnings yield %	P/E Ratio	Xd adj ytd	Total Return
FT-SE 100	3129.6	-0.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	3486.8	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250 ex Inv Trusts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	[illegible]	-0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap ex Inv Trusts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-A ALL-SHARE	1545.92	-0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
1 CAPITAL GOODS(215)	[illegible]	-0.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 Building Materials(28)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 Contracting, Construction(29)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Electricals(15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 Electronics(39)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6 Engineering-Aerospace(7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 Engineering-General(48)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
8 Metals & Metal Forming(9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
9 Motors(20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10 Other Industrials(19)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 CONSUMER GROUP(240)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Brewers and Distillers(29)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Food Manufacturing(24)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Food Retailing(17)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Health & Household(27)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Hotels and Leisure(20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30 Media(34)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
31 Packaging and Paper(29)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Stores(39)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
35 Textiles(20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 OTHER GROUPS(144)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Business Services(27)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Chemicals(24)	1571.41	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Conglomerates(11)	1584.88	+0.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44 Transport(16)	3258.02	-0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Electricity(17)	2168.10	+0.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
46 Telephone Networks(4)	2049.58	-0.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Water(13)	3890.34	+0.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Miscellaneous(32)	2444.25	-1.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 INDUSTRIAL GROUP(598)	1549.31	-0.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51 Oil & Gas(17)	2781.20	+0.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59 "500" SHARE INDEX(616)	1654.57	—	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61 FINANCIAL GROUP(91)	1202.19	-1.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Banks(9)	1654.99	-1.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
65 Insurance (Life)(6)	2179.94	+0.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Insurance (Composite)(7)	726.93	-1.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
67 Insurance Brokers(10)	853.76	+0.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Merchant Banks(6)	844.03	-1.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 Property(30)	1090.95	+0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 Other Financial(23)	460.69	-0.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Investment Trusts(111)	1742.91	+0.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
99 FT-A ALL-SHARE(818)	1545.92	-0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3140.9	3130.4	3134.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	3487.5	3488.0	3487.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	1565.1	1561.1	1562.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Time of FT-SE 100 high: 8.30am low: 9.27am

FT-SE Actuaries 350 Industry Baskets

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous close	change
Constrctn	1988.0	1985.7	1981.3	1981.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Health&H	1121.1	1117.9	1124.2	1128.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Water	1597.8	1610.6	1618.8	1618.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banks	2043.1	2023.6	2021.0	2019.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT at the same address. The increase in the size of the FT-Actuaries All-Share Index from January 4 1993 means that the FT SmallCap now contains more stocks. It has been renamed the FT "500". † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. The FT-SE 100, the FT-SE Mid 250 and the FT-SE Actuaries 350 indices are compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1993. © The Financial Times Limited 1993. All rights reserved. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. The FT-SE Actuaries Share Indices are audited by The WM Company.

Wall St helps drug shares

THE Wall Street factor was one of the main forces fuelling a strong performance in pharmaceutical issues yesterday as US investors boosted confidence in the sector. In London, drugs stocks got off to a confident start on the back of a good overnight performance in the US market. Positive sentiment in the US was boosted by good results from American Home Products and ripples from Merck, which had announced its results the previous day.

Currency considerations with the strength of the dollar also pulled in some US buyers to the stocks.

SmithKline Beecham "A" also had the boost of satisfactory results and moved ahead 9 to 414p. Glaxo appreciated 13½ to 694½p and Zeneca advanced 24 to 777p. One analyst put some of Zeneca's gain down to a shortage of stock, however.

Wellcome, which continues to benefit from interest ahead of its New Orleans conference later this week, gained 9 at 775p. Its results are due at the end of next week.

Virtuality excels

A sparkling debut from Virtuality, the specialist software producer, saw the shares zoom to a premium of 119p over the listing price of 170p. The shares closed at 289p with turnover reaching 5.7m, more than one third of yesterday's placing.

Dealers said the shares, which went to around 80 institutions, moved to an immediate subtantial premium before gathering momentum during the session. They hit a bid high of 315p in the afternoon before coming back at the close.

Virtuality's strong showing carries on the successful run of market debuts. Last week, Parkdean Leisure went to a 6 per cent premium on its first day. It closed a penny ahead yesterday at 133p, up 13 from its float price.

Rank tumbles

A raft of bearish rumours on Rank Organisation sent the shares tumbling, closing 25 down at 818p in busy turnover of 2m. The first to hit the shares as trading started was a strong rumour that the chief executive had sold shares this week in advance of a meeting with analysts prior to the group going into closed period. However, the company denied the story yesterday, saying the trade was a tax-related bed and breakfast deal and unrelated to the company's performance.

The shares were further undermined by negative press comment over Rank's debt, together with rumours of an impending disposal. The talk added to nervous sentiment ahead of the analysts meeting a week on Friday, when Rank will issue a trading statement.

Among oil stocks, some US buying was reported in Shell and BP, with the former climbing 7½ to 708p and BP up 4½ to 333½p.

Burmah Castrol eased a penny to 760p as BZW announced an auction of just over a million shares that it agreed to take on via the recent enhanced share alternative.

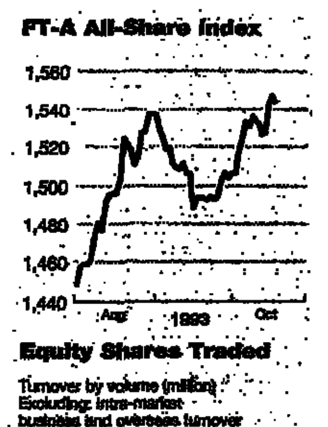
Enterprise Oil continued to enjoy the benefits of several recent buy notes and the price pushed up 9 to 499p. Hardy Oil, which announced an oil discovery in Pakistan, added 3 to 176p.

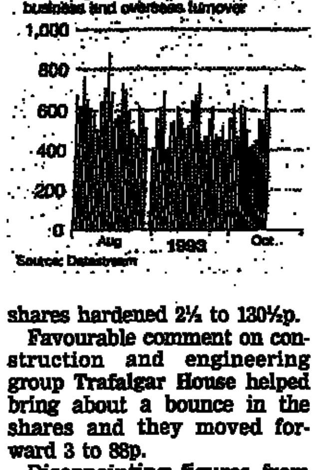
The market was twitchy over British Gas after a report by a group of independent gas companies pointed to the effect of a monopoly keeping the tariffs up. Its price fell 2¼ to 325½p.

One analyst also pointed to some rotational buying moving through the sector.

Tobacco and financial services group BAT Industries came under pressure late in the day after Philip Morris, its US rival reported a 24.8 per cent decline in third quarter income to $971m. The company blamed lower cigarette prices brought about by the current price war in the US market. Shares in BAT gave up 10 to 479p, in trade of 3.4m.

The long awaited announcement of the appointment of executive directors at international trading group Lonrho was well received by the market. Active dealing brought turnover of 5.6m and the shares hardened 2¼ to 130½p.





Favourable comment on construction and engineering group Trafalgar House helped bring about a bounce in the shares and they moved forward 3 to 88p.

Disappointing figures from plastics and metal components group McKechnie brought a slide in the shares. The 7 per cent increase in full year figures to £24.5m was at the bottom of market expectations were accompanied by a cautious statement. At the day's worst the shares were down 19 at 426p.

However, discussions with analysts and general bargain hunting saw some of the earlier gloom lifted and the shares closed 13 lower at 432p.

The news that US group Morgan Guaranty Trust had lowered its prime lending rate from 6 to 5.5 per cent, along with general profit-taking brought a sharp decline in several banking stocks.

The biggest fall was seen in Barclays, where the shares gave up 16 to 558p in trade of 3.3m. National Westminster declined 10 to 559p.

Profit downgradings for HSBC from several brokers to take account of Monday's £172 court Judgement against its merchant banking subsidiary Samuel Montagu, left the shares trailing 13 to 746p. SG Warburg was also said to be cautious on the stock while James Capel is remains cool towards the sector as a whole.

The recent profits downgrading from Strauss Turnbull for Abbey National continued to exact a toll on the shares and they gave up 8 to 414p.

In a quiet property sector, Hammerson was the main focus of attention as it announced the restructuring of its shares. The details were well received and the ordinary's advanced 14 to 418p and the A's 5 to 374p.

News that BT could generate revenue of around £2bn a year by the end of the decade from video home entertainment services, lifted the shares. They fully-paid closed 5 forward at 464p, the partly's 6 up at 215½p.

Profit-taking snipped Cable and Wireless back 22 at 952p, and Vodafone's strong run also ran out of steam, the shares 11 down at 560½p.

Aero engine maker Rolls-Royce gave up 4½ to 147½p after securities house BZW was said to have downgraded profit expectations. Volume at the close was 4.6m.

Defence stocks remained under a cloud as worries that the government would announce wide ranging defence cuts in next month's budget grew. Fears of such a move were heightened by Monday's announcement that the government is to sell two navy dockyards as part of a drive for defence savings.

Rumours that a bear story is stalking Pilkingtons moved through the market although many industry watchers seemed to be unaware of its nature. The shares slipped 4 to 138p in a volume of 138p.

The results of Wolseley pleased the market and its shares gained 18 to close at 692p.

Weakness was seen in Vosper Thornycroft, which lost 6 to 681p, VSEL, off 2 at 833p, and Vickers 3 lighter at 151p.

Among motor stocks, Monday's positive visit to BBA Group by several analysts which was initially seen as positive led to caution yesterday. BZW was among securities houses that were cheered by the visit but analysts at the securities house yesterday shaved the 1994 profits estimate by £5m to £75m, though they left the current year forecast at £60m. BZW cited continuing weakness in the European automotive sector for its move.

Profit-taking left Airtours 5 adrift at 450p. Thorn EMI remained friendless, off 6 to 908p. Executive buying was said to have lifted Vardon, up 3 to 109p. Reflection on moves by Euro Disney to reduce its labour force left the shares under a cloud, off 25 to 595p. Compass Group fell heavily for the second session running, losing a further 18 to 552p. The company was said to be upbeat in the face of market talk of margin pressures in the catering industry.

MARKET REPORTERS:
Joel Kibazo,
Christopher Price,
Christine Buckley.

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NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (326).
BRITISH FUNDS (14) OTHER FIXED INTEREST (1) AMERICANS (8) Amer Cyanamid, BellSouth, Chrysler, Dana, Dun & Bradstreet, Echlin, Ford, Lowe's, Texaco, CANADIANS (1) Bank of Nova Scotia, BANKS (2) Allied Irish, Bank Ireland, BREWERS (1) Wetherspoon (J.D.), BLDG MATLS (4) BMSS, Blue Circle, CRH, Sharpe & Fisher, BUSINESS SERVS (3) Adam & Harvey, Hays, Time Prods., CHEMS (4) Akzo, BASF, European Colour, Laporte, CONGLOMERATES (3) AGA, Hanson, Do. 9½pc Bd., CONTG & CONSTRCN (1) Abbey, ELECTRICALS (5) ASEA B, Bulgin A, Motorola, Philips, Sony, ELECTRICITY (14) East Midlands, Eastern, Manweb, Midlands, Natl. Power, Northern, Norweb, PowerGen, Scott. Hydro, Scott. Power, Seeboard, Sth. Wales, Southern, Yorkshire, ELECTRONICS (7) Acal, Astec (BSR), Division, Druck, Farnell, Palon, Tunstall, ENG GEN (3) Atlas Copco B, Prospect, SKF, FOOD MANUF (1) Nestle, FOOD RETAILING (1) Farepak, HEALTH & HSEHOLD (6) Amersham, Assoc. Nursing, Astra B, Reckitt & Colman 9½pc Bd., Westminster Healthcare, Zeneca, HOTELS & LEIS (3) City Centre Rests., Granada Pf., Vardon, INSCE COMPOSITE (1) Skandia, INSCE LIFE (2) Aegon, Lincoln Natl., INV TRUSTS (71) MEDIA (4) Dorling Kindersley, HTV, MAM, Wassroughs, MERCHANT BANKS (1) Warburg (S.G.), MTL & MTL FORMING (1) Sinometal, MISC (3) Black (P), Relyon, Rhino, MOTORS (1) ERF, OIL & GAS (7) Brit. Petm., Greenway, Norsk Hydro, Royal Dutch, Santos, Shell Trans., Woodside, OTHER FINCL (6) Camellia, EFT, FNFC 8.3pc Pf., Henderson Adm., Jardine Strat., M & G, Quayle Munro, Sharelink, OTHER INDLS (3) B.H. Prop., OMI, RJB, PACKG, PAPER & PRINTG (4) Gibbon Lyons, Hunters Armley, Jarvis Porter, MY, PROP (11) Burford, Chesterfield, Debenham Tewson & Chinnocks, Derwent Valley, Green Prop., Greycoat, Land Lease, London & Assoc., Peel, Safeland, Slough Ests. Pf., STORES (5) Asprey, Brown (N), Moss Bros., Oriflame, Stylo, TELE NETWORKS (2) Brit. Telecom, GN Gt. Nordic, TEXTS (4) Alexandra Workwear, Atkins, Lamont, Worthington, TRANSPORT (3) BAA, Brit. Airways Cap. 9½pc Cv., Forth Ports, WATER (7) Anglian, Nth. West, Northumbrian, Severn Trent, Sth. West, Southern, Wessex, PLANTATIONS (1) Anglo-East, MINES (8) Anglogassa, Niugini, Pasminco, Wankie Colliery, Western Areas, Willoughbys Pfd.
NEW LOWS (15).
AMERICANS (1) Woolworth, BREWERS (1) Burn Stewart Dists., CHEMS (1) Courtaulds, FOOD MANUF (1) Northern Foods, FOOD RETAILING (3) Morrison (Wm.) Supermarkets, Do. 5¼pc Pf., Sainsbury (J), HEALTH & HSEHOLD (1) Kynoch, HOTELS & LEIS (2) Friendly Hotels, IMC Inds., MEDIA (1) Gold Greenlees Trott, MISC (2) Delaney, Sinclair (Wm), PACKG, PAPER & PRINTG (1) Bowater Pf., MINES (1) Malinga Res.

FINANCIAL TIMES EQUITY INDICES

	Oct 19	Oct 18	Oct 15	Oct 14	Oct 13	Year ago	* High	* Low
Ordinary share	2353.8	2363.0	2354.3	2327.4	2333.2	1912.9	2414.2	2124.7
Ord. div. yield	3.94	3.93	3.95	4.00	3.99	4.70	4.52	3.82
Earning yld % full	4.57	4.56	4.58	4.64	4.63	6.72	6.38	4.51
P/E ratio net	27.58	27.63	27.48	27.18	27.21	18.91	28.30	19.40
P/E ratio nil	25.43	25.48	25.34	25.05	25.09	17.58	26.14	18.14
Gold Mines	216.7	213.3	213.7	214.6	218.6	71.2	249.2	80.0

*for 1993. Ordinary share index since compilation: high 2414.2 31/8/93 - low 49.4 26/6/40
Gold Mines Index since compilation: high 734.7 15/2/83- low 26/10/71
Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2365.8	2368.5	2359.8	2358.6	2358.5	2356.7	2352.6	2353.6	2354.4	2366.2	2350.9

Volume	Oct 19	Oct 18	Oct 15	Oct 14	Oct 13	Year ago
SEAQ Bargains	32,837	34,349	39,281	28,008	29,095	25,351
Equity Turnover(£m)†	-	1334.0	1800.3	1385.9	1506.7	1122.4
Equity Bargains†	-	38,118	43,253	31,812	32,372	27,689
Shares traded (ml)†	-	583.1	723.3	562.1	586.7	508.4

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate. 48p at all other times.

LONDON SHARE SERVICE

BRITISH FUNDS

Notes	Price £	+ or -	1993 high	low	Yield Int.	Red.
"Shorts" (Lives up to Five Years)						
Treas 13¼pc 1993‡‡	100¾xd	—	[illegible]	100¼	13.65	5.73
8½pc 1994	100⅞	—	[illegible]	100⅞	8.43	5.55
14½pc 1994‡‡	103⅛	—	[illegible]	103⅛	14.04	5.40
Exch 13½pc 1994	104⅛xd	—	[illegible]	104⅛	12.96	5.36
Treas. 10pc Ln. 1994‡‡	102⅞	—	[illegible]	102⅞	9.72	5.37
Exch 12½pc 1994	105⅜	—	[illegible]	105⅜	11.81	5.30
Treas 9pc 1994‡‡	103⅛xd	—	[illegible]	103⅛	8.67	5.29
12pc 1995	108	—	[illegible]	107⅞	11.11	5.33
Exch 3pc Gas 90-95	97¼xd	—	[illegible]	94	3.07	4.58
10¼pc 1995	107⅞	—	[illegible]	107⅞	9.50	5.42
Treas 12¾pc 1995‡‡	113⅞xd	—	[illegible]	113½	11.19	5.53
14pc 1996	117⅞	—	[illegible]	117⅞	11.93	5.64
15¼pc 1996‡‡	122⅞xd	—	[illegible]	121⅞	12.49	5.71
Exch 13¼pc 1996‡‡	117⅞xd	—	[illegible]	115¼	11.26	5.71
Conversion 10pc 1996	111⅞xd	-⅛	[illegible]	108⅞	8.97	5.82
Treas 13¼pc 1997‡‡	121	—	[illegible]	118½	10.95	5.97
Exch 10½pc 1997	113⅛	-⅛	[illegible]	110⅞	9.26	5.96
Treas 8¾pc 1997‡‡	109⅛	-⅛	[illegible]	105½	8.01	5.99
Exch 15pc 1997	130⅞xd	—	[illegible]	127⅞	11.49	6.23
9¾pc 1998	112⅞	—	[illegible]	108⅞	8.63	6.17
Treas 7¼pc 1998‡‡	104⅞	+⅛	[illegible]	99⅞	6.95	6.07
7¼pc 1998 B‡‡	104⅞	+⅛	[illegible]	101⅞	6.96	6.09
Treas 6¾pc 1995-98‡‡	101⅞xd	—	[illegible]	97⅞	6.66	5.74
14pc '98-1	129¼xd	+⅛	129½	125⅞	10.83	6.49
Five to Fifteen Years						
Treas 15½pc '98‡‡	138⅛	+⅛	[illegible]	133⅞	11.23	6.35
Exch 12pc 1998	123⅞xd	+⅛	[illegible]	118⅞	9.71	6.44
Treas 9½pc 1999‡‡	113⅞	—	113½	108⅞	8.37	6.37
Exch 12¼pc 1999	125⅞	+⅛	[illegible]	120⅞	9.78	6.54
Treas 10½pc 1999	118½xd	+⅛	118½	112⅞	8.88	[illegible]
Conversion 10¼pc 1999	116⅞xd	+⅛	[illegible]	112⅞	8.66	6.51
9pc 2000‡‡	112⅞	+⅛	113	106	7.97	6.46
Treas 13pc 2000	133	+⅛	133⅛	125½	9.77	6.77
10pc 2001	118½	+⅛	118⅞	109⅞	8.44	6.73
7pc '01 ‡‡	102⅞	+⅛	102⅞	97⅞	6.89	6.61
9¾pc 2002	118⅞	+⅛	119⅛	108⅞	8.21	6.87
8pc 2003‡‡	108⅞	-⅛	108⅞	97⅞	7.39	6.79
8pc 2003 A‡‡	108⅞	-⅛	108⅞	102⅞	7.39	6.80

BRITISH FUNDS - Cont.

Notes	Price £	+ or -	1993 high	low	Yield Int.	Red.
10pc 2003	121⅛	-⅛	[illegible]	[illegible]	[illegible]	[illegible]
Treas 11½pc 2001-4	126½	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
Treas 6¾pc 2004	98⅛	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
Funding 3½pc '99-4	80¼	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
Conversion 9½pc 2004	116⅞xd	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
9½pc 2005	119⅛xd	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
Treas 12½pc 2003-5	138⅞xd	—	[illegible]	[illegible]	[illegible]	[illegible]
7¾pc 2006‡‡	108⅞	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
8pc 2002-6‡‡	108⅞	-⅛	[illegible]	[illegible]	[illegible]	[illegible]
Treas 11¾pc 2003-7	130⅛	-⅛	[illegible]	[illegible]	[illegible]	[illegible]
Treas 8½pc 2007 ‡‡	112	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
8½pc 2007 C (£50)‡‡	65⅞	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
13½pc '04-8	146⅛	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
Over Fifteen Years						
Treas 9pc 2008 ‡‡	116⅞xd	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
8pc 2009	107⅛	-⅛	[illegible]	[illegible]	[illegible]	[illegible]
Conv 9pc Ln 2011 ‡‡	118⅛	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
9pc 2011 D (£50) ‡‡	51⅛	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
Treas 9pc 2012‡‡	118⅞	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
Treas 5½pc 2008-12‡‡	86⅞	—	[illegible]	[illegible]	[illegible]	[illegible]
Treas 8pc 2013‡‡	108⅞	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
7¾pc 2012-15‡‡	108⅛	-⅛	[illegible]	[illegible]	[illegible]	[illegible]
Treas 8¾pc 2017‡‡	118⅛	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
Exch 12pc '13-'17	149⅞	+⅛	[illegible]	[illegible]	[illegible]	[illegible]
Undated						
Consols 4pc	54¼	+⅛	54⅞	[illegible]	[illegible]	[illegible]
War Loan 3½pc‡‡	49½	-⅛	49¼	[illegible]	[illegible]	[illegible]
Conv 3½pc '61 Aft.	66⅞	-⅛	67⅞	[illegible]	[illegible]	[illegible]
Treas 3pc '66 Aft.	38¼	—	40⅞	[illegible]	[illegible]	[illegible]
Consols 2½pc	34⅞	-⅛	35¼	[illegible]	[illegible]	[illegible]
Treas. 2½pc	33⅞	-⅛	34⅞	[illegible]	[illegible]	[illegible]

BRITISH FUNDS - Cont.

Index-Linked

Notes	Price £	+ or -	1993 high	low	Yield (1)	(2)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for February 1993: 138.8 and for September 1993: 141.9.

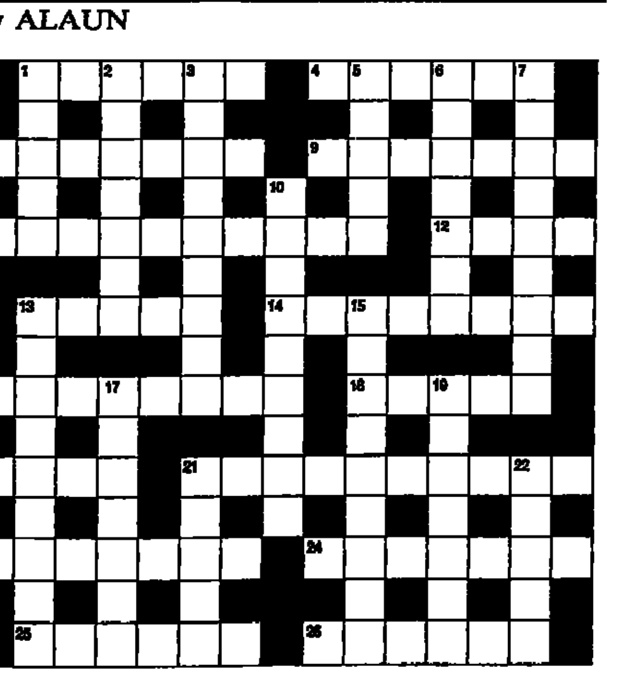
OTHER FIXED INTEREST

Notes	Price £	+ or -	1993 high	low	Yield Int.	Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

CROSSWORD

No.8,284 Set by ALAUN

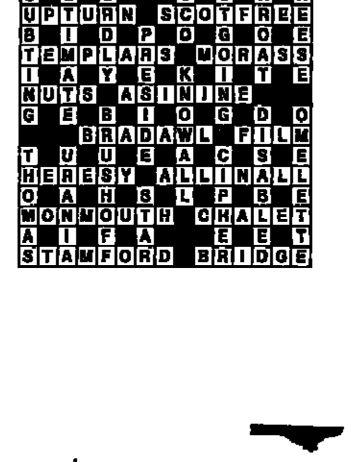


ACROSS
1 Brush the suit (6)
4 Can break free to get out, which is bad (6)
8 Repeat it time and time again when I'm gone (7)
9 Do try – it is a competition (7)
11 Rock music? (6,4)
12 Claimed to have been kept captive (4)
13 As far as "It's swing music he's famous for" (5)
14 What they do at a dog parlour that makes news (8)
16 Back and win a bundle through "My Mac" (8)
18 Thought to be, at first, confused (5)
20 Animal that has potential killers in retreat (4)
21 Can't it see it's going nowhere? (5,5)
23 Having caught the germ, was furious (7)
24 Mean, twisitng the tail and rather liking it (7)
25 Escort to quarters, as is proper (6)
26 Checked back to find the weight (6)

DOWN
1 Succeeding in getting sillier by the day! (5)
2 I take part in the exchanges or invective (7)
3 Going up, yes, but one's wrong about their spiralling (2,3,4)
5 A desire to be with one (5)
6 What the slow eater needs, to put a spurt on? (7)
7 A lost stray, indeed unhappy (9)
10 Make anti-music (9)
13 See it again in the stars: "Devious woman who will betray you" (9)
15 Prompt, whereas the news channels take an awful time about (9)
17 Denied the information was up to date, wrongly (7)
19 Lips sealed, not prepared to inform (5,2)
21 Complain about the French cricket player (5)
22 Evil, heartless and a beast (5)

JOTTER PAD

Solution 8,283



EQUITY FUTURES AND OPTIONS TRADING

FOOTSIE futures suffered from directionless trading as dealers struggled to find a clear lead on the outlook for interest rate cuts or the economic recovery, writes Christine Buckley.

The December contract on the FT-SE 100 opened a little above the previous night's close at 3,151, although it was fairly weak and could only muster a short-lived rally. That was on the back of a little optimism that downbeat CBI comments on the retail sector may force the chancellor of the exchequer's arm on interest rates. The high point of the contract was 3,159 in early trading.

With no strong guidance, however, the general feeling remained mixed and the contract began to drift downwards. Arbitrage positions were opened and the sellers moved in. But the selling brought only a measured fall in the contract, as most of it was done by independent traders and lacked the clout of a withdrawal by institutions.

By mid-morning the contract touched the day's low of 3,138, although later on the 3,145 mark proved a support level and December managed a moderate climb-back by lunchtime.

Its close of 3,148 was a couple of points ahead of its fair value premium to cash, which is about 15 points. At 7,813 contracts traded, the volume was in line with recent levels.

Of the stock options, Land Securities was the busiest with 4,911 lots traded.

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs		19⅞xd	+¹³⁄₁₆	20⅞	15⅝	15,798	2.4
Allegheny & W	♥	955p	+3	722p	398p	318.0	3.6
Amdahl		324p	-2	591½p	294p	383.8	1.0
Amer Cyanamid		39	+⅞	39	31¼	3,504	3.0
Amer Express		22½xd	-¹³⁄₁₆	25⅞	14⅞	10,827	3.0
Amer T & T		39⅝xd	-⅝	43¼	33⅛	53,387	2.2
Ameritech		57⅜	-⅜	60½	46	25,295	4.3
Anheuser-Busch		32⅝	+⅛	41¼	29⅞	9,028	2.9
BankAmerica		28⅞xd	-⅝	38⅛	27⅞	10,285	3.2
Bankers NY		52¹³⁄₁₆xd	-⅞	54¼	42⅝	4,369	3.9
Bell Atlantic		43¼	-1	44¾	32¼	19,019	4.1
BellSouth		41⅞	+⅞	41⅝	32⅞	20,582	4.5
Bethlehem Steel	♥	10xd	+⅛	13¼	8½	985.1	-
Bowater		1279pxd	—	1682p	1169p	463.5	3.1
CPC		32¼xd	+⅞	34⅞	28	4,932	2.7
California Engy		1166p	—	1479p	1066p	212.3	-
Chase Manhattan		22⅞xd	-1⅛	24⅞	17⅞	3,570	3.5
Chrysler		38⅛xd	+⅞	38⅛	21¼	10,578	1.1
Citicorp		23¹³⁄₁₆xd	-1⅛	26	13⅞	8,704	-
Colgate-Palm		38¹³⁄₁₆xd	-⅛	45⅞	32	6,197	2.6
Cont'l Bank		1759p	-85	1877p	1278p	1,777	2.3
Dana		38⅞xd	+¹³⁄₁₆	39½	29⅝	1,806	2.7
Data General		690p	+21	951p	527p	190.4	-
Decora Inds	♥	101½p	—	148p	101½p	-	-
Dun & Brad		43	+⅞	43	37⅛	7,667	3.8
Eaton		32¼	—	34	25⅞	2,248	2.5
Echlin		21½xd	+⅞	21½	15⅛	1,253	2.2
FPL		26⅞xd	-⅛	27⅞	23¼	4,781	6.3
Ford Motor		39⅞xd	+1	39⅞	28⅞	19,340	2.7
Gen Elect		65¹³⁄₁₆xd	-⅛	67⅛	53⅞	68,069	2.6
General Host	♥	630p	+3	723p	456p	-	4.3
Gillette		40⅞xd	-1⅞	42⅞	31⅞	8,912	1.4
Hasbro		20⅞	—	20⅞	20⅝	1,819	0.8
Honeywell		22⅞xd	-⅛	26½	20¹³⁄₁₆	4,639	2.7
Houston Inds		32⅞	+½	33¼	28¼	4,257	6.1
Ingersoll-Rand		24⅞xd	+⅞	25¹³⁄₁₆	19⅞	2,578	1.9
Lockheed		45⅛	+1⅞	45⅛	35⅛	2,798	3.1
Lowe's		3278p	+22	3278p	1573p	2,388	0.7
Malvy Technology		267p	—	330p	127p	-	-
Merrill Lynch		64⅞xd	-1⅞	66⅞	37	6,808	1.7
Morgan (JP)		50xd	-⅛	52⅞	38⅞	9,680	3.2
Morris (Philip)	♣	36⅛xd	+⅛	52⅝	28	31,657	4.8
NYNEX	h	28⅞	-⅛	32⅞	28⅛	8,144	5.3
Pall		13	—	15	10⅞	1,508	1.6
Pennzoil		38⅞xd	+1⅞	47⅞	31¹³⁄₁₆	1,789	5.1
Quaker Oats		48⅞xd	-⅛	50⅞	39⅞	3,492	2.9
Questor		285p	+2	687p	481½p	26.9	-
Rockwell		23⅞xd	+⅛	24⅞	18⅞	6,228	2.8
Rep NY		33½xd	-1⅞	37⅞	29⅞	1,753	2.2

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICALS - Cont.

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

INVESTMENT COMPANIES

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service.

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- φ Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. v Not subject to ACT. z Dividend yield includes a special payment. E Auction basis. F Yield based on prospectus or other official estimates for 1994-95. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1993. K Yield based on prospectus or other official estimates for 1992-93. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1993-94. N Figures based on IMR 'Headline Earnings' draft proposals. P Figures based on prospectus or other official estimates for 1994. R Forecast annualised yield, p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

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Sun Alliance Unit Tst Mngmt Ltd (1200)F

Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex
Enquiries 0277 227300 — Dealing 0277 690389

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Equity	6	795.9	795.5	851.2	-0.4	2.88
North America	6	128.6	128.6	137.5	-0.8	2.88
Far East	6	147.6	147.6	157.9	+0.8	0.15
W'wide Bond	6	63.93	63.93	67.87	+0.9	0.31
European	6	96.19	96.13	102.8	+0.29	5.19
Equity Income	6	92.34	93.00	98.47	-0.1	0.22
Portfolio	6	83.52	83.52	89.33	+0.47	3.65
UK Leading Cos	6	56.89	57.45	61.12	+0.16	0.51
Bonus Trusts						
NW Equity	6	64.16	64.65	68.14	+0.65	-

Sun Life of Canada Unit Mgrs Ltd (1000)H

Basingview, Basingstoke, Hants — 0800 525725

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Growth	6	35.15	35.19	37.64	+0.28	0.53
Managed Assets	6	127.83	128.44	137.37	+0.27	2.50
UK Income	6	40.01	40.34	43.15	+0.09	2.80
UK Growth	6	38.53	38.86	41.56	+0.08	2.09
Worldwide Growth	6	33.72	33.85	36.19	+0.19	0.53

Sun Life Trust Mngmt Ltd (1200)H

101, Cannon St, London EC4N 5AD
Admin & Enq 071-606 4044 — Dealing: 071-606 6010

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Master Portfolio	5¼	46.72	46.72	49.97	+0.31	0.44
Amer Growth Acc	6¼	60.73	60.73	64.65	+0.46	0.00
Cap Protector Acc	5¼	49.73	50.42	53.83	-0.07	2.57
Cap Protector Inc	5¼	41.26	41.83	44.74	-0.06	2.51
Euro Growth Acc	6¼	83.54	83.54	89.07	-0.85	0.49
Far East Gwth Acc	6¼	137.09	137.09	146.82	+1.11	0.00
Japan Growth Acc	5¼	118.37	118.37	126.42	+0.79	0.00
UK Growth Acc	5¼	73.97	73.97	79.11	+0.03	1.74
UK Income Acc	5¼	74.84	74.84	80.04	-0.07	2.99
UK Income Inc	5¼	52.54	52.54	56.19	-0.05	2.99
Mngd Extra Income Inc	5¼	32.62	32.62	34.85	-0.04	3.59
Mngd Extra Income Acc	5¼	38.88	38.88	39.39	-0.04	3.58
Mngd Growth Acc	5¼	92.59	92.59	99.03	+0.22	0.74
Mngd High Yield Inc	5¼	80.45	80.45	86.04	-0.13	3.79
Mngd High Yield Acc	5¼	98.61	98.61	105.47	-0.14	3.79
Mngd Inc & Gth Inc	5¼	75.90	75.90	81.18	-0.17	2.87
Mngd Inc & Gth Acc	5¼	88.79	88.79	94.96	-0.21	2.87
Mngd W'wide Growth	6¼	33.81	34.82	37.03	+0.27	0.10
UK Smaller Cos	5¼	31.98	32.78	35.04	+0.04	1.56
Pacific Growth Portfolio	5¼	43.95	43.98	47.04	+0.55	0.71

Swiss Life Unit Tst Man Co Ltd (1200)F

Admin: 5 Rayleigh Road, Hutton, Brentwood, Essex
Enquiries: 0277 227300 — Dealing 0277 261010

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Equity Dist	6½	540.20	564.10	598.49	+0.40	2.07
Equity Acc	6½	802.90	823.80	871.70	+0.60	2.07
Fixed Int Dist	6½	120.60	129.10	132.80	—	6.92
Fixed Int Acc	6½	317.80	326.80	336.70	+0.10	6.92
UK Index Track Dist	6	126.80	129.10	136.80	—	2.80

M & G Securities Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Charibond (z)		119.55	+0.1	8.02
(Accum Units)		840.58	+1.1	8.02
NAACIF (z)		50.02	+0.2	6.79

Morgan Grenfell Investment Funds Ltd

Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
UK Equity † Oct 12	188.6	187.8	—	2.33
UK Small Co † Oct 12	640.5	674.2	—	2.81
Fixed Interest † Oct 12	131.1	131.9	—	8.80
Intl Bond Oct 12	147.7	160.0	—	7.82

Morgan Stanley International

	Bid Price	Offer Price	+ or -	Yield Gross
UK Exempt NAV	£1492.95		—	-
Overseas Exempt NAV	£1417.80		—	-

Murray Johnstone UT Mngmt

Murray Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
American Exempt	88.69	89.81	+0.17	1.19
European Exempt	81.91	83.83	+0.30	2.28
Fixed Int Ex Oct 14	52.04	53.36	—	7.89
Japan Exempt	80.88	82.75	+0.31	0.82
Managed Ex Oct 14	56.27	57.77	—	2.98
SE Asia Exempt	142.80	149.20	-0.20	1.65
Sm Cos Exmt Oct 14	45.98	48.28	—	2.84
UK Eqty Ex Oct 14	48.63	50.44	—	3.06

NatWest Investment Management Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Smaller Cos Aug 20	6025	6330	—	3.37

PDFM Unit Managers Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Small Co's Oct 19	884.07	914.43	+13.82	2.82
Do Accum	1075.52	1111.39	+16.55	2.82
Intl Expl Oct 14	262.53	286.08	—	1.4
UK Index Oct 19	1491.85	1510.05	+31.12	3.88
Do Accum	1749.32	1787.86	+38.43	3.88
Convertible Oct 18	119.67	121.74	—	6.60
World ex UK Index Oct 19	1114.42	1124.82	+30.43	1.74
Do Accum	1114.42	1124.82	+30.43	1.74
Japan Index Oct 19	807.15	814.71	+5.06	0.49
Do Accum	813.93	821.58	+6.03	0.49
USA Index Oct 19	1420.37	1427.43	+51.28	2.47
Do Accum	1513.93	1521.06	+54.56	2.47
Europe ex UK Index Oct 19	1251.99	1268.75	+34.36	2.09
Do Accum	1332.74	1350.88	+38.78	2.09
Pacific ex Jap Index Oct 19	1005.94	1058.77	+0.51	2.56
Do Accum	1027.86	2026.99	+0.58	2.56
Managed Exempt Oct 14	148.41	150.34	—	3.95
Do Accum	150.27	151.85	—	3.95
American Exempt Oct 14	180.11	183.42	—	2.43
European Exempt Oct 14	167.34	170.78	—	1.61
Japan Exempt Oct 14	152.31	155.72	—	0.28
Pacific Basin Oct 14	204.66	209.91	—	1.59

INSURANCES

OTHER UK UNIT TRUSTS

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Prudential Assurance Co
Holborn Bars, London EC1N 2NH 071-405 9222

	Bid Price	Offer Price	+ or -	Yield Gross
Prufund				
Managed Oct 6	321.9	338.4	—	-

Prudential Corporate Pension Funds
55 King's Road, Reading RG1 3AH 0734 494852

	Bid Price	Offer Price	+ or -	Yield Gross
Prudential Managed Funds				
Discretionary Oct 6	£250.42	259.32	+2.25	-
Equity Oct 6	£282.38	282.71	+3.82	-
International Oct 6	£42.04	43.13	+0.09	-
Intl Bond Oct 6	£21.61	21.88	-0.14	-
Fixed Int Oct 6	£138.29	134.80	+0.49	-
Index Linked Oct 6	£97.41	98.62	+0.65	-
Property Oct 6	£115.45	122.22	+0.41	-
Cash Oct 6	£34.06	34.06	+0.03	-
Pru-Linked Retirement Plan				
Managed Oct 6	587.70	612.20	+4.10	-
Cash Oct 6	306.10	321.00	+0.50	-
Prudential Pensions Investment Account				
Pens Mngd	238.40	254.30	+0.40	-
Pens Mngd A	105.80	111.80	+0.20	-
Pens UK Eq	401.20	432.50	+0.40	-
Pens Intl	300.80	322.20	+1.20	-
Pens Global Eqty	134.50	141.80	+0.20	-
Pens Fixed	299.70	316.40	+0.80	-
Pens Index Lk	246.50	259.10	+0.20	-
Pens Property	92.80	97.70	—	-
Pens Cash	201.20	211.80	+0.12	-
Money Purchase Plan				
Discretionary (z)	137.80	145.70	+0.10	-
Equity (z)	140.60	151.20	-0.10	-
International (z)	138.30	145.40	+0.80	-
Global Equity (z)	138.80	148.60	+0.10	-
Intl Bond (z)	150.70	158.60	+0.20	-
Fixed Interest (z)	150.10	158.60	+0.20	-
Index Linked (z)	135.10	142.20	—	-
Property (z)	104.70	115.20	—	-
Cash (z)	116.40	122.20	—	-

Prudential Individual Life Funds
55 King's Road, Reading, RG1 3AH 0734 494852

	Bid Price	Offer Price	+ or -	Yield Gross
Series I Life Funds				
Managed	768.2	808.7	+0.9	-
Equity	1479.2	1557.1	+0.7	-
Fixed Interest	607.3	639.3	-0.4	-
Property	398.3	419.3	+0.5	-

Scottish Amicable - Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Others				
Capital Guarantee Bond	105.7	111.3	—	-

Scottish Equitable Life Assce. Soc.
28 St Andrew Sq, Edinburgh 031-556 9101

	Bid Price	Offer Price	+ or -	Yield Gross
Mixed	245.1	258.0	-0.4	-
UK Equity	233.2	245.5	-1.0	-
International	248.8	261.8	+0.8	-
American	252.4	265.8	+1.4	-
European	233.1	245.4	—	-
Japan	247.4	260.4	+1.5	-
Pacific	355.1	373.8	+0.7	-
Technology	327.7	344.9	+1.9	-
Fixed Interest	181.5	191.1	-0.4	-
Indexed Linked	165.0	173.7	+0.3	-
Foreign Bond/Currency	232.5	244.7	+0.6	-
Cash	174.951	184.159	+0.020	-
Ethical	125.4	132.0	—	-
Pens Mixed	716.6	754.3	-0.3	-
Pens UK Equity	795.3	837.1	-4.6	-
Pens International	779.2	820.2	+3.1	-
Pens Nth American	282.8	298.1	+1.4	-
Pens European	278.2	292.8	+0.2	-
Pens Japan	299.0	314.7	+2.2	-
Pens Pacific	450.9	474.6	+4.1	-
Pens UK Fixed Interest	376.5	396.3	-1.9	-
Pens Index Linked	204.9	215.7	+0.4	-
Pens Cash	279.292	293.988	+0.039	-
Pens Property	215.77	227.13	—	-
Pens Ethical	162.8	171.3	-0.2	-
Edinburgh Inv	373.1	392.8	+1.2	0
Baillie Gifford Japan	256.9	270.4	-1.7	-
Pens Global	98.1	103.4	+0.7	-
Pens Emerg Mkts	107.0	112.6	+1.0	-
Pens Overseas Bond	96.3	101.4	+1.4	-

Scottish Life Investments
19 St Andrew Square, Edinburgh 031-225 2211

	Bid Price	Offer Price	+ or -	Yield Gross
Property	184.0	193.8	—	-
UK Equity	342.8	360.9	-0.6	-
American	253.3	266.7	+0.7	-
Pacific	356.7	375.6	+2.5	-
European	458.0	482.2	+0.9	-
International	308.1	324.4	+1.0	-
Fixed Interest	247.3	260.4	+0.5	-
Index Linked	203.1	213.8	-0.3	-

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

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JERSEY (REGULATED)(**)

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LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE

Dollar recovers against DM

THE US dollar staged a come back from recent lows against the the D-Mark yesterday while the German currency was weaker in Europe as technical positions were adjusted, *writes Peter John.*

The dollar's revival began in New York on Monday, continued in the Far East and endured through European trading hours yesterday. However, most dealers were at a loss to find any substance behind the move. There was a general acceptance that the dollar had reached a support level which prompted investors to take their profits and buy back the US currency.

The correction began with the Japanese yen against which the dollar fell to around Y105 a fortnight ago. On Monday it moved back to the mid-Y107 level but was unable to break through Y107.50, seen as a significant chart level. It slipped to Y107.05 to the yen from Y107.45 yesterday as the rally shifted to Europe.

It rose to DM1.6440 at best against the D-Mark, just below the top of a recent trading range which begins at DM1.5880. Mr Paul Chertkow, global currency analyst at UBS, said: "Once DM1.5940 was tested, the tenor of the market changed. There is a feeling that the gloom has been overdone. The fundamentals are pointing to a stronger dollar, particularly in the light of speculation of lower rates in Europe."

The dollar closed a pfennig higher in Europe against the German currency at DM1.6370. It was also stronger against sterling for much of the day hitting $1.4830 to the pound before rallying in the afternoon to close at $1.4920, still up from $1.4980 previously.

Analysts will be scrutinising the UK retail sales figure for September this morning as the market becomes increasingly obsessed with signals that UK interest rates might soon fall.

The D-Mark had benefited from hedging against lower interest rates in Belgium and France last week and slipped yesterday as dealers pocketed profits from the sharp shifts in the European currencies.

The German Bundesbank will hold its weekly repurchase agreement today and there is a feeling that the central bank could allow its variable lending rate to slip by some 5 basis points to 6.65 per cent. While not significant in itself a lower repo might pave the way for a cut in key rates depending on M3 money supply data this week.

The D-Mark slipped to BFr21.82 from BFr21.88 against the Belgian franc ahead of the release of details of Belgium's social pact on wages and jobs late yesterday.

It was also weaker against the Italian lira. Dealers said that foreign investors had been buying Italian equities without hedging against further falls in the currency because the lira had reached a recent low and that had helped the currency's recovery. The D-Mark fell to L973.80 from L975.80.

Against the French franc, the D-Mark slipped to FFr3.5320 from FFr3.5350.

£ IN NEW YORK

Oct 19	Latest	Previous Close
£ Spot	1.4905-1.4915	1.4960 1.4970
1 month	0.37-0.36pm	0.39 0.38pm
3 months	0.91-0.89pm	0.92 0.90pm
12 months	2.82-2.75pm	2.80 2.70pm

Forward premiums and discounts apply to the US dollar

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Oct 19	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator‡
Dutch Guilder	2.19672	2.13812	-2.67	6.67	-
D-Mark	1.94964	1.90100	-2.49	6.48	-
Spanish Peseta	154.250	153.283	-0.64	4.49	4
Irish Punt	0.808628	0.811521	0.36	3.45	-2
Portuguese Escudo	192.854	197.289	2.30	1.49	-15
French Franc	6.53883	6.71989	2.77	1.03	-23
Belgian Franc	40.2123	41.5363	3.29	0.51	-24
Danish Krone	7.43679	7.72112	3.82	0.00	-26

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. ‡Indicative values only. Divergence indicators are based on 15% band limitations but do not show the 2.25% band between the Dutch Guilder and D-Mark.

STERLING INDEX

	Oct 19	Previous
[illegible]	[illegible]	[illegible]

CURRENCY RATES

Oct 19	Bank of rate %	Special Drawing Rights	European Currency Unit
[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY MOVEMENTS

Oct 19	Bank of England Index	Morgan Guaranty Changes %
[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

Oct 19	£	$
Korea(Sth)	1203.00 - 1203.20	809.30 - 809.50
Kuwait	0.44410 - 0.44470	0.29875 - 0.29915
Luxembourg	53.25 - 53.35	35.70 - 35.80
Malaysia	3.7800 - 3.7815	2.5430 - 2.5440
Mexico	4.6230 - 4.6260	3.1100 - 3.1120
N.Zealand	2.6760 - 2.6785	1.8000 - 1.8025
Saudi Ar	5.5790 - 5.5755	3.7505 - 3.7515
Singapore	2.3410 - 2.3425	1.5750 - 1.5760
S.Af (Cm)	4.9790 - 4.9815	3.3495 - 3.3510
S.Af (Fn)	6.1915 - 6.2080	4.1650 - 4.1750
Taiwan	39.85 - 40.00	26.80 - 26.90
U.A.E.	5.4595 - 5.4605	3.6725 - 3.6735

POUND SPOT - FORWARD AGAINST THE POUND

Oct 19	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Oct 19	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EURO-CURRENCY INTEREST RATES

Oct 19	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXCHANGE CROSS RATES

Oct 19	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C $	B Fr.	Pta	Ecu
£	1	1.492	2.443	159.8	8.828	2.165	2.74[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$	0.670	1	1.637	107.1	5.783	1.444	1.84[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DM	0.409	0.611	1	65.41	3.632	0.882	1.12[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN	6.258	9.337	15.29	1000.	53.99	13.48	17.1[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
F Fr.	1.159	1.729	2.831	185.2	10.	2.496	3.18[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S Fr.	0.464	0.692	1.134	74.15	4.004	1	1.27[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
N Fl.	0.364	0.544	0.890	58.21	3.143	0.785	1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lira	0.420	0.627	1.027	67.17	3.627	0.906	1.154	1000.	0.831	22.40	82.81	0.542
C $	0.506	0.755	1.236	80.83	4.364	1.090	1.388	1203	1	26.96	99.65	0.652
B Fr.	1.876	2.799	4.583	299.8	16.19	4.043	5.150	4463	3.709	100.	369.8	2.418
Pta	0.508	0.757	1.240	81.12	4.380	1.094	1.393	1208	1.004	27.06	100.	0.654
Ecu	0.776	1.157	1.895	124.0	6.694	1.672	2.130	1846	1.534	41.35	152.8	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS; LIFFE EURO DMARK FRANC OPTIONS; LIFFE EURO FUTURES OPTIONS; LIFFE EURODMARK OPTIONS; LIFFE ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS; LIFFE SHORT STERLING OPTIONS

Strike Price	Calls-settlements Dec	Mar	Puts-settlements Dec	Mar
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON (LIFFE); CHICAGO; U.S. TREASURY BONDS (CBT); JAPANESE YEN (IMM); DEUTSCHE MARK (IMM); U.S. TREASURY BILLS (IMM); THREE-MONTH EURODOLLAR (IMM); BRITISH POUND (IMM); SWISS FRANC (IMM); STANDARD & POORS 500 INDEX; PHILADELPHIA SE £/$ OPTIONS; PARIS; CAC-40 FUTURES (MATIF); ECU BOND (MATIF); OPTION ON LONG-TERM FRENCH BOND (MATIF)

	Open	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4920	1.4883	1.4830	1.4759	1.4640

BASE LENDING RATES

	%
[illegible]	[illegible]

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKETS

Cash stays tight

TIGHT conditions prevailed in the UK money markets yesterday forcing overnight rates high and leading to significant late assistance by the Bank of England, *writes Peter John.*

Dealers said the leading banks were once again unprepared to release collateral in the form of bills. There was some suggestion that issuers of short-term bills – mainly companies needing to borrow cash from commercial banks – might be holding back in the belief that they will be able to borrow money at lower rates soon. As a result, the commercial banks may not have had enough bills to take up the offers of Bank of England help.

UK clearing bank base lending rate
6 per cent
from January 26, 1993

Belief that base rates are about to fall was also reflected in the three-month interbank rate which eased slightly.

The daily liquidity shortage was exacerbated by a large round of late assistance on Monday. That was repayable yesterday when the initial shortage forecast of £1.25bn was later revised to £1.4bn.

Among the main factors affecting the position were the take-up of Treasury Bills and paper maturing in official hands, which drained £889m, and Exchequer transactions, which removed £295m. Partly offsetting these was a fall in note circulation injecting £120m into the system.

The Bank of England provided £216m of early assistance via bills for resale in equal amounts on November 9 and 10 at 5$\frac{31}{32}$ per cent. It provided £131m later, buying £121m of band one bank bills at the established 5⅞ per cent rate and £10m of bills for resale on November 9 and 10 at 5$\frac{31}{32}$ per cent, and a further £492m in the afternoon.

It was not until after the official close that the shortage was finally taken out with late assistance of £690m at the customary unspecified rate.

December short sterling futures, which reflect the market's view of where rates will be when the contract expires on December 15, remained steady at 94.61 ahead of the latest retail sales figures today. At that level, the contract discounts a half-point base rate cut.

French short-term interest rate futures eased slightly shortly after the official close. Mr Jean-Claude Trichet, the governor of the Bank of France, said the country was still committed to a stable currency and rumours of a move toward a shift in monetary policy were false. The December contract rallied later to around 93.57.

FT LONDON INTERBANK FIXING

(11.00 a.m. Oct 19)	3 months US dollars		6 months US Dollars	
	bid 3¼	offer 3⅜	bid 3⅜	offer 3½

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

Lunchtime		One month	[illegible]	Three year	4.10
Prime rate	[illegible]	Two month	[illegible]	Five year	[illegible]
Broker loan rate	[illegible]	Three month	[illegible]	7-year	[illegible]
Fed.funds	[illegible]	Six month	[illegible]	10-year	[illegible]
Fed.funds at intervention	[illegible]	One year	[illegible]	30-year	[illegible]

Oct 19	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.25
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.75
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-

LONDON MONEY RATES

Oct 19	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

	Gross	Net	CAR	Int Pd
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · GERMANY · NETHERLANDS · SWEDEN · SWITZERLAND · NORWAY · SPAIN · SOUTH AFRICA · ITALY · JAPAN · AUSTRALIA · HONG KONG · MALAYSIA · SINGAPORE

[illegible]

CANADA

TORONTO

4 pm close October 19

Quotations in cents unless marked $

Sales	Stock	High	Low	Close	Chng
8499	Cantor	$34⅜	34⅜	34⅜	-⅛
19300	CnPcForest	$16¼	15¾	15¾	-½
2500	Cara Op	490	480	480	-20
200	Celanese	$58¾	58¾	58¾	-¼
5170	CntCpital	25	20	25	-4
49000	Cinepx Odn	440	420	430	
1300	Cntrl Fd A	$6⅝	6⅜	6⅝	
191482	Cominco	$16⅜	15⅜	16⅜	+1⅛
18600	Coputalog	300	290	290	-10
90280	Corel Sys	$44⅞	44¼	44¼	-½
5001	CoscanDev	u235	225	235	+10
10150	Invest Grp	$41⅝	41	41⅝	+¼
8700	Ivaco A	$5⅞	5¾	5⅞	+⅛
5800	Jannock	$17	16¾	17	+¼
166	KerrAddis	$21¼	21¼	21¼	
134611	Labatt	$23⅝	23¼	23½	
677728	Lac Mnls	$9¾	9½	9¾	
99	Lafarge	u$28½	28½	28½	+¾
26600	Laidlaw A	$8¼	8	8¼	+⅛
610756	Laidlaw B	$8¼	7⅞	8	-⅛
1200	Laurent Bk	$16¾	16⅝	16¾	
114079	Ren'sance	$34¼	33¾	33¾	-¾
152550	Repap Ent	370	330	335	-25
8240	Rigel En	$22⅜	22	22	-¾
8928	Rio Algom	$17⅞	17⅝	17⅞	
268077	RogersComB	$22⅜	22⅛	22¼	-¼
300	Rothmans	$101	101	101	
798367	RoyalBkCan x	$27⅝	27¼	27⅜	+⅜
147640	Ryl Oak Mn	$6½	6⅛	6⅜	+⅛
194031	StLawCm A	$8⅛	7⅞	8⅛	+⅛
326856	SceptreRs	$14	13¾	13⅞	+⅛
15600	ScotPaper x	$10¼	10	10¼	+⅜
8200	GTC TranB	$11⅞	11⅝	11⅝	-⅛
955250	JeanCoutu	$12½	d12	12⅜	+⅛
7500	MetroRich	$10⅝	10⅝	10⅝	
338257	NatBk Can	$10¾	10½	10½	-⅛
11500	Quebecor A	$20	20	20	+¼
3137	Unva	$7⅞	7¾	7⅞	
28838	Videotron	$27⅝	26⅞	27⅛	-½

Total Sales 25,148,031 shares

MONTREAL

4 pm close October 19

[illegible]

INDICES

NEW YORK

DOW JONES	Oct 18	Oct 15	Oct 14	Oct 13	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3642.31	3629.73	3621.63	3603.19	3652.09 (25/8)	3241.95 (20/1)	3652.09 (25/8/93)	41.22 (2/7/32)
Home Bonds	109.77	109.71	109.37	109.29	109.77 (18/10)	103.48 (11/1)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1655.91	1640.95	1636.04	1645.23	1683.08 (15/4)	1453.84 (4/1)	1683.08 (16/4/93)	12.32 (8/7/32)
Utilities	243.87	246.05	243.54	240.51	256.46 (31/8)	217.14 (8/1)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Indl. Day's High 3675.84 (3664.66) Low 3595.92 (3586.20) (Theoretical◆)
Day's High 3646.22 (3642.31) Low 3619.67 (3618.38) (Actual◆)

STANDARD AND POOR'S

	Oct 18	Oct 15	Oct 14	Oct 13	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	468.45	469.50	466.83	461.49	469.50 (15/10)	429.05 (8/1)	469.50 (15/10/93)	4.40 (1/6/32)
Industrials♥	534.48	533.47	528.80	522.43	534.61 (18/10)	490.48 (26/4)	534.61 (18/10/93)	3.62 (21/6/32)
Financial	48.35	47.48	48.01	48.35	48.40 (28/9)	39.89 (8/1)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Composite	260.00	260.48	258.12	256.75	260.48 (15/10)	238.21 (8/1)	260.48 (15/10/93)	4.46 (25/4/42)
Amex Mkt. Value	481.10	483.23	481.65	475.85	483.23 (15/10)	395.84 (8/1)	483.23 (15/10/93)	29.31 (9/12/72)
NASDAQ Composite	782.91	787.42	785.41	778.97	787.42 (15/10)	645.87 (26/4)	787.42 (15/10/93)	54.87 (31/10/72)

	Oct 15	Oct 8	Oct 1	year ago (approx.)
Dow Industrial Div. Yield	2.81	2.84	2.85	3.27
	Oct 13	Oct 6	Sep 29	year ago (approx.)
S & P Industrial div. yield	2.47	2.48	2.49	2.78
S & P Indl. P/E ratio	28.00	27.86	27.76	26.77

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Citicorp	6,502,500	35⅝	- 1⅛
Merck	5,388,300	32¼	+ 1⅛
Home Shop	4,484,000	12⅝	- ⅝
Telefonos	4,291,100	55	+ 1⅛
MNWL Cos	4,081,900	36½	- ½
Philip Morris	3,509,100	53⅞	+ ⅞
First Union	3,381,900	41	- ½
Chase Manhattn	3,051,600	34⅛	- 1¾
Chrysler	2,862,400	53⅞	+ 1
BankAmerica	2,861,500	43⅛	- 1½

TRADING ACTIVITY

† Volume (Millions)	Oct 18	Oct 15	Oct 14
New York SE	321.922	358.808	351.895
Amex	24.058	42.469	24.821
NASDAQ	(u)	368.802	382.755
NYSE			
Issues Traded	2,656	2,617	2,635
Rises	1,021	1,202	1,173
Falls	1,063	802	906
Unchanged	572	613	556
New Highs	163	187	152
New Lows	22	14	23

CANADA

TORONTO	Oct 18	Oct 15	Oct 14	Oct 13	1993 HIGH	1993 LOW
Metals & Minerals	3022.15	3005.18	2967.95	2941.15	3140.94 (18/8)	2743.31 (21/1)
Composite	4188.7	4182.60	4145.00	4111.80	4188.70 (18/10)	3275.80 (21/1)
MONTREAL Portfolio	1993.49	1983.18	1961.96	1936.78	1993.49 (18/10)	1720.97 (21/1)

Base values of all indices are 100 except NYSE All Common - 50; Standard and Poor's - 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ◆ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

	Oct 19	Oct 18	Oct 15	Oct 14	1993 HIGH	1993 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	2075.5	2085.5	2074.1	2062.0	2085.50 (18/10)	1495.00 (13/1)
All Mining (1/1/80)	873.9	888.4	863.7	865.7	904.50 (2/8)	584.70 (13/1)
AUSTRIA						
Credit Aktien (30/12/84)	416.52	415.76	405.63	403.04	416.52 (19/10)	300.26 (14/1)
Traded Index (2/1/91)	1078.23	1077.58	1043.83	1033.84	1078.23 (19/10)	712.06 (15/1)
BELGIUM						
BEL20 (1/1/91)	1375.86	1381.05	1370.86	1362.71	1381.05 (18/10)	1125.45 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	337.97	337.55	335.78	334.12	340.58 (19/8)	261.90 (4/1)
FINLAND						
HEX General (28/12/90)	1500.1	1512.2	1500.5	1488.2	1512.20 (18/10)	843.10 (22/1)
FRANCE						
CAC General (31/12/81)	591.55	590.98	586.06	585.09	600.51 (31/8)	471.24 (13/1)
CAC 40 (31/12/87)	2147.32	2144.99	2139.26	2113.88	2216.49 (31/8)	1772.21 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	777.73	782.09	774.08	768.58	782.09 (18/10)	598.92 (14/1)
Commerzbank (1/12/53)	2228.9	2240.8	2213.7	2191.5	2240.80 (18/10)	1694.30 (14/1)
DAX (30/12/87)	2028.76	2033.32	2015.09	1990.07	2033.32 (18/10)	1516.50 (13/1)
HONG KONG						
Hang Seng Bank (31/7/64)	8861.41	9031.13	8763.98	8412.40	9031.13 (18/10)	5437.80 (4/1)
IRELAND						
ISEQ Overall (4/1/88)	1171.69	1753.96	1735.84	1722.82	1754.84 (19/8)	1171.69 (19/10)
ITALY						
Banca Com. Ital. (1972)	588.94	589.88	577.59	568.64	632.88 (30/8)	446.33 (6/1)
MIB General (4/1/83)	1294.0	1297.0	1270.0	1251.0	1390.00 (30/8)	982.00 (11/1)
JAPAN						
Nikkei (16/5/49)	20069.81	20872.21	20174.42	20082.81	21148.11 (13/9)	16287.45 (25/1)
Tokyo SE (Topix) (4/1/68)	1644.48	1646.69	1654.01	1645.21	1698.67 (3/9)	1250.06 (25/1)
2nd Section (4/1/68)	2206.12	2226.85	2229.03	2216.84	2384.97 (7/6)	1651.72 (28/1)
MALAYSIA						
KLSE Composite (4/4/86)	926.16	914.53	927.46	919.03	927.46 (15/10)	614.28 (13/1)
NETHERLANDS						
CBS TtlRtn.Gen.(End 1983)	399.4	398.8	394.8	390.0	399.40 (19/10)	285.70 (4/1)
CBS All Shr (End 1983)	259.1	258.7	256.0	253.0	259.10 (19/10)	198.60 (13/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	1009.90	1002.58	983.98	970.24	1009.90 (19/10)	669.93 (27/1)
PHILIPPINES						
Manila Comp (2/1/85)	2158.99	2187.95	2175.25	2136.75	2187.95 (18/10)	1270.68 (4/1)
SINGAPORE						
SES All-Singapore (2/4/75)	552.81	555.87	553.18	542.54	555.87 (18/10)	394.10 (13/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1750.0♥	1707.0	1700.0	1760.0	2098.00 (30/7)	775.00 (5/1)
JSE Industrial (28/9/78)	4519.0♥	4514.0	4528.0	4528.0	4719.00 (6/7)	4333.00 (19/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	741.24	747.19†	734.37	737.77	777.25 (9/8)	605.93 (8/3)
SPAIN						
Madrid SE (30/12/85)	300.38	306.81	298.73	298.74	304.88 (30/8)	215.60 (4/1)
SWEDEN						
Affarsvariden Gen. (1/2/37)	1397.0	1397.8	1381.9	1368.8	1397.80 (18/10)	879.10 (28/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	1133.18	1133.66	1117.78	1105.82	1133.66 (18/10)	904.80 (11/1)
SBC General (1/4/87)	898.40	900.34	888.79	882.18	900.34 (18/10)	678.70 (11/1)
TAIWAN**						
Weighted Price (30/6/66)	3970.18	4061.47	4025.27	4014.87	5013.28 (7/4)	3098.43 (9/1)
THAILAND						
Bangkok SET (30/4/75)	1160.95	1150.60	1154.95	1137.58	1160.95 (19/10)	818.84 (1/6)
WORLD						
M.S. Capital Intl.(1/1/70) $	604.3*	606.0	607.1	602.6	607.10 (15/10)	488.60 (13/1)
Euro Top-100 (26/6/90)	1152.32	1155.61	1145.07	1131.01	1155.61 (18/10)	882.73 (13/1)

**Saturday October 16: Taiwan Weighted Price: 4031.16. Korea Comp Ex: 734.67.
♥ Subject to official recalculation. † Correction. *Calculated at 15.00 GMT.

Base values of all indices are 100 except: Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000, JSE Gold - 255.7, JSE 20 Industrials - 264.3 and Australia All Ordinary and Mining - 500; (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

Tuesday, October 19, 1993

	Stocks Traded	Closing Prices	Change on day
Oki Elec	2.6m	562	-1
Nippon Steel	2.6m	331	+4
Fujitsu	2.3m	863	-4
Sumitomo Mtl Min	2.0m	907	-5
Tokio M&F Ins	2.0m	1,240	-10
Mitsubishi Hvy	1.7m	675	-7
Showa Sangyo	1.7m	678	+2
Toshiba Corp	1.6m	657	
Matsushita E Ind	1.6m	1,500	
Hitachi	1.5m	841	-1

4 pm close October 19

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅝	11½	AAR Corp	0.48	3.5	681	151	13⅞	13⅞	13⅝	+⅛
29⅞	13¾	A L Labs A	0.18	1.2	28	3532	15⅝	14⅞	14⅞	-3⅞
67¼	54⅝	AMP Inc	1.60	2.5	22	1519	64⅞	63¾	64	-⅞
72¾	55½	AMR			17	5091	67⅝	66¼	67	+1⅛
3⅞	1¼	ARX			13	419	3⅝	3¼	3½	-¼
51½	29⅞	ASA	2.00	4.3	30	739	46⅞	45	46¼	+⅝
30¾	22⅝	Abbott Lab	0.68	2.5	17	8209	28¼	27½	27¾	-⅜
12⅝	8¼	Abitibi Pr	0.50	5.9	3	24	8½	8¼	8½	+¼
15⅝	8¼	Acptocain			46	111	15	14¾	14¾	
36	25½	ACE Ltd	0.92	2.7		905	34⅞	34	34½	+⅝
12	10¾	ACM Gvt In	0.96	8.3		2849	11½	11⅜	11½	
10	9⅛	ACM GvOpp	0.80	8.1		25	u10	9⅞	9⅞	
9⅞	8¾	ACM Gvt Sp	0.80	8.2		237	u9⅞	9¾	9¾	
11⅝	10½	ACM Gvt Se	0.96	8.3		2233	u11⅝	11⅜	11½	+⅛
11¾	9⅝	ACM Man	1.06	9.2		34	u11¾	11⅝	11¾	
9⅜	8⅝	ACM Managd	0.72	7.9		96	9¼	9⅛	9⅛	
12⅜	7¾	Acme Cleve	0.44	4.2	14	285	10⅝	10⅛	10½	+¼
9⅜	6¾	Acme Elect			67	790	u10	9⅜	9½	+⅛
27⅝	18⅜	Acordia	0.44	1.8	14	45	25	24¾	25	
16	10⅜	Acuson			35	1276	12⅞	12⅜	12¾	+⅜
21¾	16¼	Adams Expr	0.48	2.5	0	88	19¼	19⅛	19¼	+⅛
60¼	45½	Ad Micro	3.00	6.1		627	50	49	49⅛	-⅝
32¾	17⅜	Ad Micro P	3.00	15.4	7	11382	20⅛	19⅜	19½	-⅝
7⅞	5½	Advest Grp	0.16	2.1	13	141	7⅝	7⅜	7⅝	
24¾	14¼	Advo Inc	0.08	0.5	17	125	15¾	15⅝	15⅝	
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NYSE COMPOSITE PRICES

4 pm close October 19

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close October 19

AMEX COMPOSITE PRICES

4 pm close October 19

FINANCIAL TIMES Wednesday October 20 1993

AMERICA

US stocks mixed in midsession trading

Wall Street

US share prices were mixed in moderate trading yesterday as investors struggled to digest the implications of good economic news, higher bond yields and the latest quarterly earnings, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was up 5.59 at 3,647.90. The more broadly based Standard & Poor's 500 was 0.50 lower at 467.95, while the Amex composite was down 2.62 at 478.48, and the Nasdaq composite down 5.63 at 777.28 on profit-taking. Trading volume on the NYSE was 164m shares by 1 pm.

In recent weeks secondary and broader indices have outperformed the Dow as investors searched for inexpensive stocks and shied away from the shares of companies whose earnings are tied closely to economic cycles. This trend pushed the S&P 500, the Amex composite and the Nasdaq composite to record highs, while the Dow stayed below its all-time peak.

In the last two days, however, the trend has been reversed, with Dow stocks faring well and secondary and other issues falling from their recent summits. This partly explains why Dow and cyclical stocks were mostly firmer by early afternoon yesterday as the shares of mid-sized and small companies and growth-oriented technology firms languished.

Another reason why the markets failed to make a decisive move in any direction yesterday was the conflicting influences of good economic news – housing starts rose strongly in September – and higher bond yields. Also, the latest round of corporate earnings reports were a mix of the good and the bad.

Among individual stocks, Philip Morris fell $1½ to $52⅞ in volume of 2.3m shares after the group announced a 25 per cent drop in net income for the third quarter and warned about further difficulties in the fourth quarter.

Citicorp rose $⅞ to $36¼ in volume of 3m shares on news of a sharp improvement in third quarter earnings to 97 cents a share. Other banks were also higher on strong quarterly results, including Wells Fargo, which jumped $2⅞ to $119⅞ and Chemical Banking, up $⅛ at $42.

A range of industrial stocks lifted the Dow, among them Caterpillar, up $1⅛ at $82⅞, Goodyear Tire & Rubber, up $1¼ at $46⅝ and Sears, Roebuck, up $1⅛ at $57.

Canada

TORONTO eased further in quiet midday trading as broad-based profit-taking took most sectors lower.

The TSE-300 composite index fell 11.62 to 4,177.09 in turnover of 27.2m shares valued at C$273m. Declines led advances 345 to 271, with 290 stocks flat.

Brazil ahead in early trading as Mexico declines

BRAZIL was stronger at midsession, with the Bovespa index in São Paulo up 2.7 per cent, following a fall of some 9.5 per cent on Monday. Observers said that equities were likely to remain volatile over the next few days.

Telebras, the telecoms group, was one of the day's gainers, rising 2.8 per cent.

Mexico eased on profit-taking, having set record highs in three consecutive sessions. The IPC index was down 5.93 at 1,985.68.

Stocks have risen steadily over the past two weeks as investors have been drawn to an undervalued equity market and as the Nafta no longer appeared to be a paralysing force.

The market was led lower by Telmex, which lost ground in New York dealings.

Greek equities weather change of government

Kerin Hope on the mood in post-election Athens

The Athens stock market has weathered last week's change of government in Greece with unexpected resilience.

The opposition socialists' victory in the October 10 general election provoked a rush of gloomy economic predictions. Some appeared to be confirmed when Mr Andreas Papandreou, the new prime minister, declared that the planned sale of 49 per cent of OTE, the state telecommunications monopoly, was being called off.

Cancellation will mean revenue losses amounting to more than Dr300bn ($1.2bn), bringing the government's borrowing requirement for 1993 to around 13 per cent of GDP, against a target of 10.8 per cent.

The sale of a 35 per cent stake in OTE to a foreign telecoms operator was forecast to raise at least Dr220bn, while the flotation of another 14 per cent on the bourse had been unofficially valued at Dr90bn.

Since plunging some 14 per cent after the election was announced, the index has climbed back steadily, closing yesterday at 852.

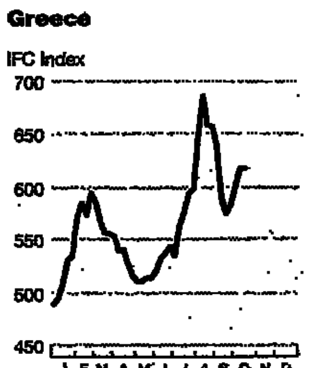
Although the market has failed to match its midsummer peak, when it reached 955, it is still 28 per cent up from the start of the year.

Buying from abroad continues to drive equities, as local investors find interest rates averaging close to 20 per cent on short-term Treasury bills a more attractive proposition. Some European institutional investors cashed in their gains when the election was called, but US fund managers continued buying.

Mr Dimitris Verroiopoulos, an analyst at Alpha Brokerage, said: "Greek equities are good value, with p/e ratios at 10 to 13 per cent, compared to other emerging markets."

The market's confidence is based on the assumption that the new government will maintain its predecessor's commitment to reducing inflation and the public sector deficit under the Maastricht requirements for European economic union.

Greece



Source: Datastream

Analysts also seem convinced that the socialists will reverse their privatisation policy, at least where partial flotations of state enterprises are concerned, in order to raise *funds for investment.*

Mr John Markopoulos, chairman of Sigma Securities, said: "Our perception is that the government will soon be needing cash for OTE's modernisation programme. The constraints on public spending will oblige them to turn to the stock market, and we expect a minority stake in the company to be floated next year."

The optimistic mood is underpinned by anticipation of a flood of EC funding for infrastructure projects, starting early in 1994. With EC inflows expected to total between Ecu17bn and Ecu20bn over the next six years, construction, cement and building equipment companies should benefit. Three construction companies, *likely candidates for* contracts to be awarded under the new EC funding package, are seeking listings next month. Aegek is to raise Dr1.9bn, Proodeftiki Dr2.1bn and Themeliodomi Dr1.5bn through the bourse.

Given these companies' prospects for growth, and the small size of the issues, demand is expected to be lively. However, so long as interest rates stay high, the outlook is less promising for bigger companies considering large rights issues.

First-half profits were lower than forecast, even in the food sector where the recession had previously made little impact on sales. In the banking sector, where steady if unspectacular gains were recorded, caution prevails.

Commercial Bank, the second-largest state bank, covered a Dr45bn *of a planned Dr50bn rights* issue launched last month, with many small shareholders said to be reluctant to participate. Following the election, Credit Bank, the country's largest private bank, decided to postpone a Dr30bn rights issue which included a sizeable tranche offered to institutions abroad.

EUROPE

Continental bourses consolidate gains

MANY of the continent's bourses took a breather yesterday from the bull run, *writes Our Markets Staff.*

FRANKFURT took a pause from its record breaking ways with most analysts commenting that the current rally still has a long way to go. Opinion remained divided as to whether the Bundesbank would cut interest rates at its regular council meeting tomorrow. Some commentators said yesterday that they believed a cut would not happen until the release of M3 and inflation data, due out over the next few days; and that November was the most probable date for an announcement.

The DAX index moved from an intraday low of 2,021 to close down 6.56 at 2,026.76. Turnover was DM9.8bnbn, with institutional funds reported to have stayed on the sidelines.

In a day bereft of corporate news BMW staged a turnaround with a gain of DM12 to DM613: the stock has been lagging behind other motor sector shares.

In contrast Volkswagen shed DM7.00 to DM375.20 and Daimler DM6.50 to DM740.00.

PARIS staged firm although turnover slipped back from the level seen at the start of the week. The CAC-40 index added 2.33 to 2,147.32, after a day's high of 2,150 and a low of 2,137. Turnover was estimated at FFr3.3bn after Monday's FFr4.5bn.

EuroDisney shed a further FFr1.55 to FFr51.65 as selling appreciated after its recent news of job cuts. James Capel in London commented that while the redundancy scheme will have a one off negative impact on profits, the news had already been largely discounted. "The more pressing problem is its future funding," the brokers said.

Bouygues was down FFr4 at FFr708 ahead of reporting a first half profit of FFr79m against FFr108m in the same year ago period after the close of trading.

Elf Aquitaine regained FFr4.10 to FFr438.10 as it announced that it was planning to restart production at its Nigerian facility.

AMSTERDAM remained in positive territory with the CBS Tendency index at one point going reaching a new record high, before closing 0.4 higher at 132.5.

Akzo was one of the day's main losers, falling Fl 2.40 or Fl 184.40, as some investors booked profits after reaching a new record high on Monday.

ZURICH encountered profit-taking after its run of seven consecutive record highs, and the SMI index finished 2.9 lower at 2,660.7 as some of the early losses were pared.

Nestlé continued as the most activeley traded stock, adding SFR2 to SFr1,174.

CS Holding, whose shares are viewed by some analysts as undervalued, rose SFr15 to SFr3,365.

MILAN turned lower, the market held back by the burden of cash calls during the current trading month, and the Comit index eased 0.94 to 588.94.

Fiat fell L145 or 3.6 per cent to L3,855: the shares had risen by 10 per cent rise over the previous two sessions since its rights issue began.

Against the downward trend, the new Ferruzzi shares added L1,533 to L51,278 after their recent sharp falls. Montedison rose L11 to L837.30.

VIENNA was modestly firmer with some profit-taking in evidence. The ATX index put on 0.67 points to 1,078.23 with Flughafen Wien down Sch13 at Sch531.

COPENHAGEN put on another 0.23 in the KFX index to 100.79 but Sophus Berendsen built on Monday's fall, off a further DKr2 to DKr474, following the announcement that it was reducing its stake in Rentokil of the UK.

STOCKHOLM gave way to profit-taking which left the Affärsvärlden index 0.8 lower at 1,397.0.in heavy trading.

The market had opened firm before a wave of selling in Astra and Ericsson shares sent the market lower.

Ericsson B shares retreated SKr9 to SKr457 while Astra A shares slipped SKr2 to SKr181.

Interest rate sensitive banks and insurers put in a better performance. S-E Banken A shares added SKr2 to SKr57.

BRUSSELS saw profit-taking which left the Bel-20 index 5.19 lower at 1,375.86 in turnover of BFr2.16bn. Analysts believe that talks on the social pact, which are scheduled to begin in coming days are unlikely to have much impact on the market. However, they added that foreigners were likely to to be ready to pick up shares if Belgian investors became sellers due to fears about the outcome of the talks.

FT-SE Actuaries Share Indices THE EUROPEAN SERIES

October 19 Hourly changes	Open	11.30	12.00	13.00	14.00	15.00	16.00	Close
FT-SE Eurotrack 100	1347.14	1345.52	1346.08	1346.10	1345.71	1343.95	1345.25	1346.27
FT-SE Eurotrack 200	1415.93	1414.79	1415.08	1414.89	1413.97	1411.79	1414.54	1414.64

	Oct 18	Oct 15	Oct 14	Oct 13	Oct 12
FT-SE Eurotrack 100	1347.38	1330.52	1315.57	1317.05	1315.91
FT-SE Eurotrack 200	1418.14	1407.10	1391.70	1391.36	1393.81

Base value 1000 (26/10/90) High/day: 100 - 1347.14; 200 - 1415.97 Low/day: 100 - 1343.20 200 - 1410.66

Written and edited by John Pitt and Michael Morgan.

ASIA PACIFIC

Hong Kong pauses after 20.9 per cent surge

Tokyo

SHARE prices remained almost flat after a volatile session dominated by public fund and arbitrage buying and profit-taking by dealers, *writes Emiko Terazono in Tokyo.*

The Nikkei average lost 2.30 at 20,069.91 after a low of 20,042.40 in the morning and a high of 20,204.02 in the afternoon session.

The index firmed immediately after the opening on public fund buying, and declined thereafter before rising again on purchases by arbitrageurs. After peaking in the afternoon, dealers, who built up long positions together with buying by public funds, liquidated positions as other institutional investors were reluctant to follow suit.

Volume was 208.7m shares, against 218m. Losers led gainers by 595 to 323, with 244 issues unchanged, and the Topix index of all first section stocks shed 4.23 to 1,644.46. In London the ISE/Nikkei 50 index edged up 0.71 to 1,280.94.

Traders said that while investors were unwilling to take short positions by selling stock, many were still reluctant to buy shares due to the prolonged recovery of the economy.

Financials, telecommunications and non-life insurance stocks were the leading losers of the day.

Profit-taking left Daiwa Securities down Y40 at Y1,400 after having been recently bought on its upward revision of interim earnings. Other brokers also weakened, with Nomura Securities receding Y40 to Y1,990 and Nikko Securities Y10 to Y1,200.

The telecom sector, which had risen on the merger between Bell Atlantic and Tele-Communications Inc in the US, lost ground. Nippon Telegraph and Telephone declined Y16,000 to Y894,000 after three consecutive days of gains, and DDI slipping Y50,000 to Y6.73m on the second section.

Other telecom linked issues were also easier, with Oki Electric, the day's most active issue, down Y1 to Y562 and Fujitsu losing Y4 to Y863.

Entertainment related stocks retreated on reports that police were investigating Heiwa, a pachinko (Japanese pinball) machine maker listed on the second section, for illegally modifying its game machines. Heiwa fell Y140 to Y4,100 and Sega Enterprises, which supplies electronic games to Heiwa, lost Y30 to Y9,870. Konami, another video machine maker, declined Y130 to Y3,870.

JR East linked stocks gained ground. Nippon Signal rose Y30 to Y1,510 and Kyosan Electric, another railway signal maker, firmed Y10 to Y1,280.

In Osaka, the OSE average dipped 45.84 to 22,199.95 in volume of 17.5m shares.

Roundup

MANY Pacific Rim markets took a pause after the record-breaking runs of recent days.

HONG KONG gave up 1.9 per cent after the bull run that has seen a cumulative rise since September 28 of 20.9 per cent. The Hang Seng index relinquished 169.72 to 8,861.41 in turnover that dipped to HK$9.04bn from Monday's record HK$10.20bn.

Mr Michael Franklin of James Capel commented that the market had begun to look vulnerable to a short-term consolidation when the index breached the 9,000 level. However, he believed that US and Japanese investors remained enthusiastic and would continue to provide liquidity for a further advance.

MANILA declined for the first time in eight days, the composite index shedding 28.96 to 2,158.99 as PLDT lost 30 pesos to 1,820 pesos.

TAIPEI fell 2.3 per cent in reaction to news that the Finance Ministry and ruling party legislators had agreed to delay consideration of a stock transaction tax cut until January. The weighted index ended 91.92 off at 3,970.18.

AUSTRALIA was dragged lower by industrial stocks and a weaker futures market. The All Ordinaries index slipped 10.0 to 2,075.5.

SINGAPORE saw an end of the record-setting run of the previous six sessions after heavy selling of Malaysian stocks traded over the counter. The Straits Times Industrial index lost 7.88 at 2,108.26.

KUALA LUMPUR rebounded strongly during the afternoon as investors returned to seek bargains after Monday's falls. The composite index closed 11.63 ahead at 926.16.

BOMBAY traded higher in a special trading session after the resolution of the brokers' strike which had kept the market closed for the previous four trading days. The BSE 30-share index added 9.37 at 2,720.29.

KARACHI rose sharply in response to Ms Benazir Bhutto's return as prime minister, *writes Farhan Bokhari.*

The KSE-100 index advanced 16.58 to 1,450.33.

Ms Bhutto is expected to continue with a recent package of economic reforms which was introduced by Mr Moeen Qureshi, the interim premier.

SOUTH AFRICA

GOLD shares saw strong early gains cut back by the close as the bullion price failed to hold overnight levels, but the index still finished 43 ahead at 1,750. The industrial index gained 5 at 4,519 and the overall index added 15 at 3,916.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY OCTOBER 18 1993								FRIDAY OCTOBER 15 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)
Australia (69)	155.21	+0.2	153.61	105.42	131.29	156.19	+0.5	3.31	154.83	151.77	104.77	129.96	155.45	155.21	117.39	118.97
Austria (17)	184.47	+2.0	182.57	125.29	156.04	155.79	+2.7	1.01	180.87	177.30	122.40	151.82	151.69	184.47	131.16	150.71
Belgium (42)	152.91	+0.2	151.34	103.85	129.34	134.44	+0.6	4.28	152.61	149.59	103.26	128.10	133.61	156.76	131.19	137.56
Canada (107)	129.97	+0.6	128.63	88.27	109.93	124.89	+0.3	2.71	129.16	126.61	87.40	108.41	124.49	130.38	111.41	113.85
Denmark (32)	235.96	-0.3	233.53	160.27	199.59	212.13	+0.3	1.07	236.70	232.02	160.17	198.68	211.43	239.12	185.11	195.46
Finland (23)	122.49	+1.3	121.23	83.20	103.62	145.86	+0.6	0.71	120.96	118.56	81.85	101.53	145.05	122.49	65.50	60.39
France (97)	168.55	-0.3	166.82	114.47	142.56	152.09	+0.3	3.03	169.08	165.73	114.40	141.91	151.64	173.05	142.72	147.59
Germany (60)	135.79	+0.1	134.40	92.24	114.86	114.86	+0.9	1.85	135.64	132.96	91.80	113.85	113.85	136.13	101.59	109.54
Hong Kong (55)	357.10	+3.6	353.42	242.54	302.07	354.19	+3.6	2.93	344.73	337.91	233.27	289.37	341.91	357.10	218.82	251.57
Ireland (14)	172.24	-0.1	170.47	116.99	145.69	168.25	+0.6	3.33	172.40	168.98	116.66	144.71	167.16	174.60	129.28	130.87
Italy (70)	72.09	+2.0	71.35	48.96	60.98	85.50	+2.1	1.95	70.69	69.29	47.83	59.33	83.75	78.93	53.78	55.51
Japan (469)	152.80	-0.7	151.23	103.78	129.27	103.78	-0.3	0.80	153.83	150.79	104.09	129.14	104.09	165.91	100.75	107.71
Malaysia (69)	447.05	-1.8	442.45	303.63	378.13	437.92	-1.8	1.58	455.41	446.40	308.15	382.24	446.11	455.41	251.66	253.94
Mexico (19)	1779.90	+0.5	1761.59	1208.92	1505.57	6058.04	+0.6	0.81	1770.56	1735.55	1198.11	1486.17	6024.34	1779.90	1410.30	1367.95
Netherland (24)	195.17	+0.5	193.17	132.56	165.10	162.97	+1.2	3.36	194.29	190.45	131.47	163.09	161.04	195.17	150.39	158.77
New Zealand (13)	64.82	+1.0	64.16	44.03	54.84	62.38	+0.7	3.56	64.18	62.91	43.43	53.87	61.93	64.82	40.56	38.83
Norway (23)	184.86	+1.5	182.96	125.56	156.37	179.03	+2.0	1.42	182.13	178.53	123.24	152.88	175.45	184.86	137.71	136.57
Singapore (38)	332.55	+0.0	329.12	225.87	281.29	240.90	+0.2	1.40	332.52	325.94	225.01	279.10	240.35	332.55	207.04	181.85
South Africa (60)	214.18	-1.6	211.98	145.47	181.16	196.15	-0.3	2.68	217.61	213.31	147.25	182.65	196.68	217.61	144.72	151.10
Spain (42)	144.44	+0.1	142.95	98.10	122.17	143.23	+0.3	4.08	144.32	141.47	97.66	121.14	142.74	144.44	115.23	114.45
Sweden (36)	208.92	+1.4	206.77	141.90	176.72	243.63	+1.5	1.39	205.93	201.86	139.35	172.86	240.00	208.92	149.70	150.68
Switzerland (50)	148.18	+1.1	146.66	100.65	125.36	131.74	+1.6	1.65	146.64	143.74	99.24	123.10	129.69	148.18	108.91	114.73
United Kingdom (218)	190.55	-0.5	188.59	129.41	161.17	188.59	+0.5	3.79	191.48	187.70	129.56	160.71	187.70	193.97	162.00	165.09
USA (519)	191.06	-0.3	189.09	129.77	161.62	191.06	-0.3	2.69	191.56	187.77	129.63	160.80	191.56	191.56	175.38	169.43
Europe (748)	162.24	+0.1	160.57	110.20	137.24	152.55	+0.8	2.96	162.11	158.90	108.70	136.08	151.36	162.97	133.92	135.02
Nordic (114)	194.54	+1.0	192.54	132.13	164.56	198.25	+1.2	1.24	192.53	188.73	130.28	161.61	195.96	194.54	142.13	141.69
Pacific Basin (713)	160.16	-0.4	158.51	108.78	135.48	113.07	-0.1	1.06	160.81	157.63	108.82	134.98	113.15	168.80	105.89	112.94
Euro-Pacific (1461)	160.91	-0.2	159.25	109.28	136.10	128.96	+0.3	1.65	161.24	158.05	109.10	135.33	128.60	162.86	117.26	121.51
North America (626)	187.26	-0.2	185.33	127.20	158.42	186.54	-0.2	2.69	187.68	183.97	127.02	157.58	186.99	187.68	171.51	165.98
Europe Ex. UK (530)	143.73	+0.4	142.25	97.64	121.61	131.34	+1.0	2.43	143.10	140.27	96.85	120.14	130.06	143.73	112.51	116.52
Pacific Ex. Japan (244)	231.62	+1.2	229.24	157.34	195.94	214.64	+1.3	2.70	228.77	224.25	154.83	192.05	211.84	231.62	152.70	157.70
World Ex. US (1647)	161.45	-0.2	159.78	109.66	136.57	131.07	+0.3	1.87	161.76	158.57	109.47	135.79	130.71	162.89	118.51	122.30
World Ex. UK (1948)	168.34	-0.2	166.60	114.34	142.41	145.84	+0.0	2.01	168.66	165.33	114.14	141.59	145.80	168.66	134.22	134.60
World Ex. So. Af. (2106)	170.11	-0.2	168.36	115.55	143.90	149.26	+0.1	2.17	170.46	167.09	115.36	143.09	149.15	170.46	137.29	137.27
World Ex. Japan (1697)	181.47	+0.0	179.61	123.27	153.53	176.04	+0.2	2.77	181.53	177.94	122.85	152.40	175.63	181.53	157.47	154.19
The World Index (2166)	170.30	-0.2	168.55	115.67	144.06	149.69	+0.1	2.18	170.68	167.30	115.50	143.27	149.58	170.68	137.32	137.26

Latest prices were unavailable for this edition.

Limitless possibilities from new box of risk-management tricks
Page 2

FINANCIAL TIMES SURVEY

DERIVATIVES

How to cut the cost of making hamburgers
Page 11

Wednesday October 20 1993

The development of derivatives business has become the most important strategic goal of the 1990s for banks and securities houses with global ambitions. **Tracy Corrigan** examines one of the most dynamic growth areas in financial markets

Moving on to centre stage

ONLY three years into the decade, the 1990s are already being dubbed the decade of derivatives. Virtually all banks, securities houses and other financial institutions with international ambitions have identified the derivatives market as a crucial strategic area.

Non-financial companies are making increasing use of derivatives to hedge their exposure to foreign exchange and interest rate fluctuations. Slower off the mark, institutional investors are also starting to warm to derivative instruments, which can be particularly useful for asset allocation.

At the same time, the new emphasis on derivatives is having a strong impact on other areas within the banking and securities business, fuelling, for example, advances in technology, and causing banks to reassess their attitudes to risk.

"The strategic question to ask about any bank right now is: have they embraced derivatives? And if not, have they found anything else to embrace instead?" says one analyst.

The market has already come through a period of rapid development. The notional amount of futures contracts traded annually on the world 's exchanges is around $140,000bn, while the notional amount of over-the-counter swaps outstanding is about $4,500bn.

Patrick de Saint-Aignan: the pace of innovation will remain high

Futures and options listed on exchanges are standardised contracts, based on an underlying market, which are traded on and cleared through an exchange.

Over-the-counter products, such as swaps and options, can be tailored to suit a particular user's needs, and are bilateral agreements between two separate counterparties.

There are now liquid futures contracts based on most of the world's large stock and bond markets. In some cases, the futures markets are more actively traded than the underlying instruments on which they are based.

New markets are still developing in Asia and Latin America, but in the US, and to a lesser extent in Europe, futures exchanges are already highly developed.

"The real emphasis has to be on organic growth," said Mr Daniel Hodson, chief executive of the London International Financial Futures Exchange, who admits that after establishing a range of European products over the past 10 years the universe of potentially active new contracts has shrunk.

Futures exchanges are now trying to adapt products from the over-the-counter market, so that they can offer standardised contracts which have some of the flexibility of the OTC market.

For example, the Chicago Board Options Exchange's flex options, which allow standard contracts to be adjusted to suit individual needs, are being imitated by other US exchanges. The line between standardised contracts and highly customised OTC products has become blurred.

"Some would say we compete (with the exchanges) but I see a complementary relationship from which the financial markets benefit. Risks we take from our clients often flow back to the exchanges," says Mr Joseph Bauman, head of business development, global derivatives, at Citibank, and chairman of the International Swaps and Derivatives Association (ISDA), the over-the-counter market's trade association. Industry experts believe there is room for further growth, especially in the less mature over-the-counter market.

"If you look at the compound annual growth rates of notional principal volume (in swaps) – 35 per cent per annum for the past three or four years – it's hard to foresee this pace continuing forever, but growth rates will stay high because the community of users continues to expand," said Mr Bauman of Citibank. Many market participants are confident because they believe that, particularly outside the

US, only a small portion of the potential base of fund managers and corporate treasurers has so far been tapped.

"It's like being a car manufacturer, at a time when only 5 per cent of the population has learned to drive," said one specialist. But there is no doubt that the market is becoming increasingly competitive, and products which were once at the cutting edge are now widely available, and at tighter margins.

"The pace of innovation will remain high as dealers continue to devote a large amount of resources to new products," predicts Mr Patrick de Saint-Aignan, chairman of Morgan Stanley SA in Paris, and a senior member of the Group of Thirty committee which recently reported on the derivatives market. "This is an activity where the dealers have a solution-oriented approach rather than trying to push standardised products."

One reason for this is that banks can charge higher fees for innovative products, particularly when they have stolen the march on their competitors temporarily. "The rate of growth is slowing but the base it is growing from is getting bigger," said Mr Malcolm Basing, president of SBC Canada and a former chairman of ISDA.

However, he identifies a number of areas where growth potential remains strong, such as commodity swaps and perhaps insurance or credit derivatives.

As well as fending off competitors, the derivatives industry has also come under attack from regulators, who are concerned about the speed of the market's growth and about potential systemic risk to the banking system.

However, a number of reports this year, for example from the Bank of England, have adopted a more conciliatory tone. "I would not characterise what they [the regulators] have done as backing off. They have taken a major look at derivative activities over the past year and there has been a tempering of the rhetoric that characterised early 1992," said Mr Bauman.

The Group of Thirty report on derivatives published earlier this year set out detailed guidelines on how to manage the risks involved.

"We are still very much under a regulatory glare, but we have convinced them it's a worthwhile business and that it can be managed effectively," said Mr Basing. "We still have to convince them that it is possible for controls to be put in place by smaller players down the line which may have fewer resources."

However, the much lamented regulatory scrutiny has undoubtedly had some positive effects.

First of all, it has concentrated the attention of bankers at board level, some of whom had risen through the ranks in a pre-derivatives era.

Second, the development of risk management techniques for derivatives has in many cases been applied to other areas of banking. "There has been a real awakening to the need to manage risk throughout an institution," said Mr Paul Reyniers, the Coopers & Lybrand partner in charge of global risk management. "If they [banks] can manage risk they have the key tool for capital allocation."

While the continued growth of the market seems certain, it is more difficult to predict the technological changes which will accompany its development. Although the technology of futures trading systems has already advanced substantially, many traders say that no electronic system yet replicates conditions in a trading pit.

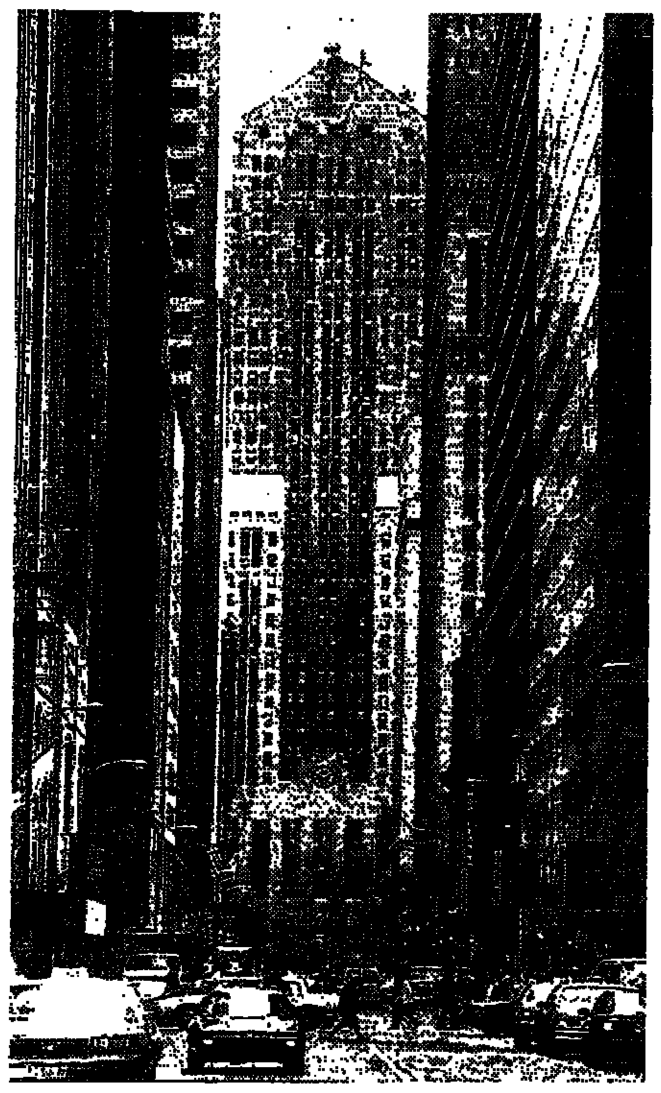
However, many traders do believe that electronic trading of some sort will be an increasingly inherent part of the derivatives market in years to come.

Globex, the 24-hour futures trading system jointly developed by Reuters the Chicago Mercantile Exchange and the Chicago Board of Trade, is yet to establish itself as a global network for trading outside normal exchange hours. But if CME chairman Mr Jack Sandner's vision of "a global trading village" is eventually realised, it could prove a vehicle for a further net increase in trading volume.

IN THIS SURVEY

Editorial production: Roy Terry
Illustration: David Bromley

DERIVATIVES 2



Chicago Board of Trade: interest-rate transactions grew by 17.8 per cent

Laurie Morse on the burgeoning market in interest-rate derivatives

A two-pronged development

INTEREST rates are hitting rock bottom, the US government is serious about trimming its deficit, and portfolio managers, stung by unthinkably low returns, are baling out of the bond markets for more profitable venues.

Does this mean the burgeoning markets in interest-rate derivatives, one of the more stunning financial phenomena of the eighties, are close to peaking? No, say dealers. Fixed income derivatives, which are proliferating rapidly, are thriving on the uncertainty created by a 300-basis-point drop in US interest rates in a year, the volatility in European currency differentials following the demise of the ERM, and a massive restructuring of corporate debt.

Last year US corporate treasurers moved en masse to switch fixed-rate obligations, which looked very attractive only a few months earlier, to lower-cost floating rate debt. Even the US government, confident of its own ability to keep inflation low, shifted its debt sales to shorter maturities. The phenomenon is now hitting Europe as rates there fall.

To hear some bankers tell it, on a quiet day in London you can almost hear the scurrying as corporate treasurers, locked into fixed-rate debt at 8 and 9 per cent, rush to swap into adjustable-rate deals, to take advantage of falling interest rates. Reversing once-attractive fixed rate deals is expensive, although they ultimately lower financing costs, and dealers have become creative about embedding option-like features into the contracts to bring down their cost.

"Interest rate derivatives are developing into a two-pronged market," says Mr Leon Tatevossian, vice-president for derivatives research at Salomon Brothers. "New products are evolving to meet ever more complicated risk management needs, while the use of structured transactions by asset managers to enhance portfolio yields is another big growth area."

Once the province of US government securities dealers who used the Chicago interest-rate futures and options pits to hedge their wholesale bond purchases, the use of derivatives trickled down from banks to corporate treasurers, then to asset managers, and now even to individuals seeking higher yields by investing in derivative-driven mutual funds.

Derivatives dealers who once focused exclusively on designing vehicles for customers who wanted to hedge liabilities are now reaching out to asset managers who are beginning to use manufactured securities as investments. Shrewd futures traders have been speculating in derivatives for years, but for the portfolio manager who does not want to be exposed to daily market moves, a tailored over-the-counter deal is more suitable than an exchange trade.

Creating a healthy "buy side" audience for structured debt will provide balance to the derivatives industry, although some critics say asset managers, by piling into the instruments in a frantic search for yield, could get burned if there is an unexpected interest rate shock.

And the liability-management side of the derivative utility equation is nowhere near being exhausted, in the US or elsewhere.

In the US, a new accounting regulation known as FAS 115 is likely to pull conservative regional bankers, insurance companies, and other capital-sensitive businesses who have resisted the trend, into the derivatives fold.

The regulation, which becomes effective in January 1994, requires that securities be classified as either "held to maturity", "available for sale", or "held for trading". Securities in either of the two latter categories must be regularly marked to market, a factor that makes them suddenly vulnerable to even small fluctuations in long-term interest rates.

The new requirements are expected to throw many more securities into the "available for sale" accounting bin, and while the marked-to market process will not show through on income statements, it will affect equity and capital requirements.

"A company that is capital-sensitive will have to keep a closer eye on what is happening in the available-for-sale account. Its just one more risk they'll have to manage," says Marjorie Marker, a senior manager and derivatives specialist for Arthur Andersen.

She believes derivatives will play a large part in helping these companies mitigate this new market risk. However, conservative organisations, mainly small banks, will simply move assets into shorter maturities, an action that will trim the margins they now reap in the spread between borrowing customer funds at 3 per cent interest and lending them to the government at 6 per cent.

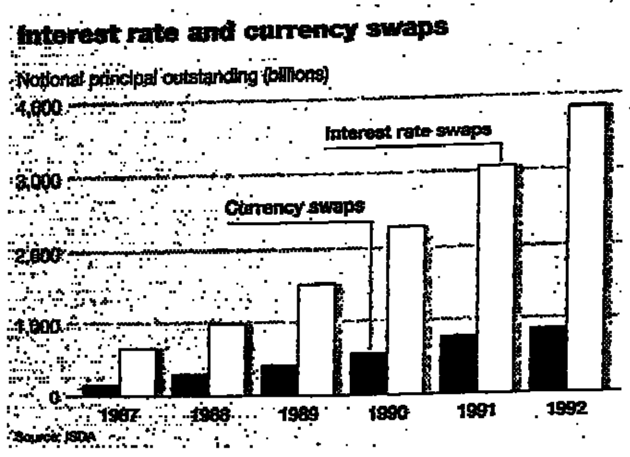
Far from *stealing* business from organised futures and options exchanges, the evolution and diversification of interest-rate derivatives has fuelled tremendous growth in exchange-traded products. Even the most exotic swaps and structured notes designed for a single customer are eventually distilled into a risk a dealer will hedge in a futures or options pit.

Sometimes, when the custom transactions are for long maturity periods or require frequent rate adjustments, the over-the-counter deal will be hedged and covered and re-hedged repeatedly on an exchange.

This helps explain why the total notional value of interest-rate swaps outstanding at the end of 1992, at $3,800bn, as reported by the trade group ISDA, was smaller than the same measure of current open positions in US-exchange-traded interest-rate derivatives, and far smaller than the value of exchange-traded government debt worldwide.

The exchanges are best described as wholesale debt-management markets, and their growth rates expand in concert with custom-tailored derivatives.

The Chicago Mercantile Exchange had a 14.2 per cent year-over-year growth rate in interest-rate futures and options at the end of the third quarter, while at the Chicago Board of Trade, interest-rate transactions grew by 17.8 per cent. That compares with ISDA estimates that over-the-counter interest rate swaps, in all currencies, grew at a 19 per cent rate last year.



Richard Waters looks at the sell side: commercial and investment banks

New box of risk-management tricks

IT IS ONE of the great paradoxes of the derivatives industry. Some leading US commercial banks, battered in the 1980s by excessive concentrations of lending to third world countries, the property sector and leveraged buy-outs, have set themselves up in the 1990s as experts in risk management.

Is an industry which proved so lax in controlling its own risks – and which has been bailed out only by the lowest US interest rates in memory – really in a position to advise others on theirs?

The banks say they have emerged stronger and wiser from the experience of the 1980s. "Banks have learned as an industry that concentration is not a good thing," says Mr Peter Hancock, head of derivatives at J P Morgan, a bank which came through the excesses of the 1980s better than most.

Bankers Trust remains the most extreme example of the phenomenon which has turned banks from pools of risk themselves into providers of risk management instruments. Stuck with third world debt and bridge loans which it was unable to sell on through the securities markets, the US's seventh biggest banking group (in terms of assets) slumped to a near-$1bn loss in 1989. Yet the experience coincided with an early move into derivative markets which left Bankers Trust as the most profitable commercial bank in the US last year, with a return on equity of 23 per cent.

Not surprisingly, derivatives and risk management are now virtually a religion inside Bankers Trust. "It's not a product – it's more a way of life," says Mr Brian Walsh, head of derivatives. The most obvious embodiment of this: the bank's much-emulated method of allocating capital based on an analysis of both credit and market risk through a unified model. Known as "raroc" (for "risk-adjusted return on capital"), this capital-allocation model was adjusted a year ago to take more account of the liquidity risk implicit in different types of asset, Mr Walsh says (the lower the liquidity, the higher the capital charge applied internally.)

The re-emergence of risk-taking in commercial banks has been most pronounced in the swaps markets. They may have retreated from commercial lending in the 1990s (in part because the strongest companies can raise money at better rates direct from the capital markets), but this has not stopped banks taking on new credit risks. As counterparties to swap transactions, most banks have been adding off-balance sheet credit exposure to replace shrinking on-balance sheet risks. Mr Hancock calls it "the rebirth of bank intermediation". It has provided a route for banks to reinvent themselves as credit institutions – and this time, they claim, the risks are being spread more evenly through the system.

Bankers Trust, which invested earlier than most in the people and technology needed to run a derivatives business, and J P Morgan, with its strong balance sheet and good relationships with many big companies, have been the most profitable "money centre" banks in the US this year. Much of this is due to derivatives, though neither bank reports profits from derivatives separately.

To hear these banks talk, their new box of risk management tricks offers almost limitless possibilities. Most big decisions taken by their corporate customers – such as whether to build a new factory, or buy another company – involve the taking of many different business and market risks. Through the derivatives markets (whether currency, interest rate or commodity) those risks can be split apart and managed separately. Mr Walsh points to one example: the ability to lock into a fixed oil price for up to 10 years. "That must have a profound effect on the way oil companies are run," he says.

If companies respond to these blandishments, then the most successful intermediaries in the derivatives markets will be those best able to act as the lightning conductors through which risk is transfered from one group to another. The ability to price and hedge exposures – many of which, unlike equities or fixed income securities, have no underlying cash market – will also be an important determinant of future profits.

Risk-management skills learned in the equity, currency or fixed income derivatives markets are already taking commercial banks into new areas. Insurance could prove the next great opportunity. The risk transfer mechanism in the insurance industry is dominated by a limited number of large institutions, whether insurers or reinsurers. Much like the banking industry, these institutions carry large exposures and are vulnerable to unforeseen events: one big US hurricane, say, could wipe out a whole year's property/casualty insurance profits in one go.

Through the same risk-transfer mechanism pioneered in other derivative markets, both Bankers Trust and JP Morgan say they are already linking the exposures in the insurance industry to the wider capital markets. According to Mr Hancock: "Just as derivatives have brought regional capital markets together, it will help to connect that [insurance] market with others. It leaves you with a bigger pool of risk takers to absorb the shocks."

The effect on the giants of the insurance industry could be profound. "It's the last area in financial services to go through significant change," says Mr Walsh, though he hesitates to suggest that the capital markets will eventually prove a better mechanism for transfering insurance risks than the insurance companies.

It is not surprising, therefore, to see some big insurers moving into the derivatives markets themselves.

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CURRENCY PRODUCTS

ERM crises quicken activity

SINCE THE late 1980s, the trade in currency derivative products has been one of the fastest growing sectors of the foreign exchange business. But successive crises in the European exchange rate mechanism in the past year have given this sector a stimulus that few dealers could have anticipated.

Until a few years ago, the personnel on a bank's derivatives desk were often regarded as unusual figures – more akin to rocket scientists than currency traders. In its infancy, the currency derivatives market was a supply-led business, with banks spending huge sums on the research and development of products which, they hoped, would allow customers to hedge risks.

The growing participation of institutional investors in currency dealing over the past five years gave currency derivatives an initial boost. Institutions such as pension funds and insurance funds have greatly increased their purchase of overseas assets in recent years.

They have been keen to hedge the exposure of these assets – like bonds and equities – to exchange rate moves. That is why they have purchased derivative products which allow them to lock in to established exchange rates.

But it was the recent crises in the ERM that led to an explosion of interest in this area.

The departure of sterling and the Italian lira from the system in the autumn of 1992 was followed by the momentous decision to widen the bands for most ERM currencies to 15 per cent on August 2 of this year. With currencies fluctuating over much wider areas, investors have rushed to hedge their exposures.

"There has been a 5 to 10 per cent increase in the use of these products over the past 12 months," said Mr Patrick Allaway, managing director of Global Foreign Exchange at Swiss Bank Corporation in London. "Institutions are facing volatility in European cross-rates for the first time, and that is making derivative products much more attractive."

One of the principal instruments that investors use is the forward contract, which allows him or her to purchase or sell a currency at an exchange rate that is set at a fixed date in the future.

The other popular alternative is the currency "option". This gives the customer the opportunity to buy or sell a currency if it should "strike" a certain exchange rate. The contract is paid for by means of a premium which is set by the bank.

The main customers for these instruments tend to be leading institutional investors or multinationals with payments and receiveables in different currencies. It is selective clientele – and that may be derivative products are not cheap. There are two reasons for this:

■ The increase in exchange rate volatility in recent years has made it riskier for banks to write options. In August 1992 and July 1993 – the height of the ERM crises – premiums were selling at some three times above their normal levels. The volatility has subsided, but premiums on European currency options are still higher than normal.

■ Second, options can be expensive because they are often tailor-made for a particular customer. Options can be bought on an exchange, but the most attractive variants are over-the-counter options (OTCs) which a bank designs for an institution's particular requirements.

According to Mr Allaway, the most attractive options today are "basket" options, which allow a currency to be hedged against a group of European currencies. That option might be bought by a customer who is unsure what specific trades he will be making in European currencies over a given period of time.

Another popular variant is the "down-and-out" option. This allows a customer to let the option lapse if the exchange rate moves in a direction which is favourable to him. The attraction of these options is their lower premium.

However, if these are tools increasingly used by the principal customers, then they are also being provided by an ever smaller élite of commercial banks.

The research and development investment required to be at the forefront of the derivatives business is so great that only a handful of players can afford it. Mr Allaway says that some 90 per cent of the turnover of the business is controlled by just six banks with a strong presence in London – and their market share is increasing.

Moreover, banks have to be very careful about participating in a business where losses can – theoretically – be astronomical. In the ERM crisis of September 1992, some French banks were thought to have been extremely badly burned by the exposure of their derivatives teams to exchange rate movements.

So, successful option teams need to have very clear management structures around the business. They also have to provide sufficient capital to hedge the "underlying" moves that follow the writing of any options.

The banks are confident that they can manage this business. But governments and central bankers are increasingly concerned about the possibilities of a credit default in the derivatives sector that would destabilise markets.

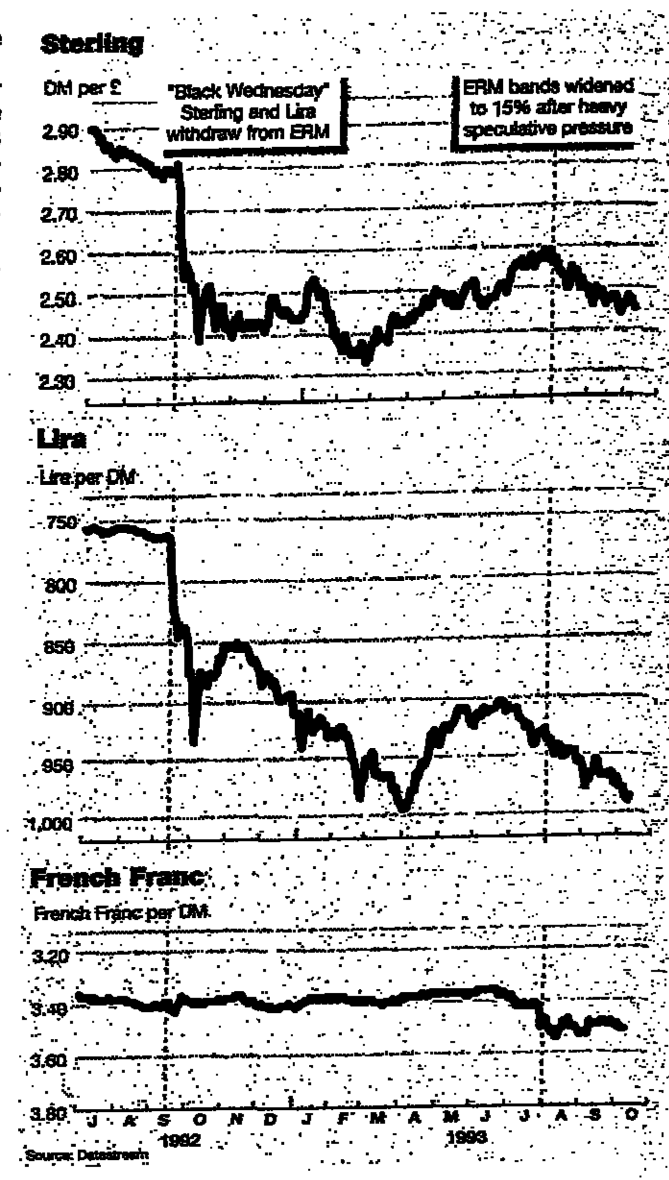
Earlier this year the Bank for International Settlements said that it might extend the amount of cash cover that commercial banks had to set against the risks that were being taken in their derivatives operations.

There are also concerns that the growth of the derivatives market could intensify the flows in spot foreign exchange markets in a way that would also be destabilising.

At the moment, the options business accounts for around 3 per cent of total turnover in foreign exchange. But some currency managers believe that this is enough to impact some 10 per cent of the total flows in the spot market.

Some dealers believe that if options were to account for a 10 per cent share of all turnover, these instruments would be generating around half of all the flows in the market. There is a danger that this would create extreme volatility at certain times, providing another headache for central bankers who are trying to regulate the operations of foreign exchange dealers.

James Blitz



LEGAL ISSUES

Quest for definitive answers

AS DERIVATIVES transactions metamorphosed at a dizzying rate in the 1980s, turning bonds and options into swaps and swaptions, strips and tigers, with collars and floors, they mutated beyond traditional securities regulation, and put themselves into a land of legal limbo.

Financial engineers driving quirky softwear on powerful Sun workstations have not only left stodgy bond traders with their broker screens in the dust, they have befuddled regulators unaccustomed to dealing with hybrid financial instruments.

The fact that derivative deals represent thousands of billions of dollars in capital and regularly cross political borders makes the legal wrangles, and their accompanying risk, all the more onerous.

Recognising that banking and trading laws were written long before there were over-the-counter derivatives, banks are working to seal the gaps left where derivative transactions do not fit into old-fashioned legal categories. The problems of defining what derivatives are, who is allowed to trade them, and how to enforce standard agreements designed to reduce transaction risks are all hot issues in banking.

The ubiquitous interest rate swaps, for example, risk being judged illegal under the gambling laws of countries as diverse as France, Brazil, Canada and Japan, and until recently, under the commodities regulations of the United States. In some countries swaps risk has been classified as usurious, and is illegal.

Mr Dan Cunningham, partner at the US law firm Cravath, Swaine and Moore and counsel to the International Swap and Derivatives Association, says tremendous progress has been made in these areas, and that clarifying legislation is being sought in countries where the line of the law is cloudy.

Changes in the legal environment have come in important areas. US commodity regulators this year declared that swaps were exempt from futures regulations, wiping away a huge legal uncertainty in the US. Australia is considering similar legal adjustments.

In France, national financial authorities last September issued a circular that defined who is allowed to use swaps, and under what conditions they can trade. Local governments in France, for example, cannot speculate in derivatives, but can use them to hedge.

However, those changes have occurred under conditions still in flux. Uneasiness about the risks derivatives pose to the world banking system prompted the US Congress to reserve final word on derivatives regulation, and some legislators view the swaps exemption from commodity law as simply an interim act on the way to more structured swaps regulation.

In another category of legal risk, derivatives dealers have become increasingly more circumspect about who they take as a swaps counterparty, not just from a credit standpoint, but from the view of legal eligibility.

Governments, particularly municipalities, can be attracted to derivatives deals, but their qualification for a swaps marriage is not always clear.

The costs of consorting with an ineligible counterparty were driven home in the UK in 1991, when the House of Lords ruled that the London Borough of Hammersmith and Fulham, an active sterling interest rate swaps trader, did not have the power to enter into derivative contracts.

The decision voided five years worth of contracts, and forced the local authority and the involved financial institutions to take losses. The decision also voided similar deals between more than 130 UK councils and 75 of the world's largest banks, stirring up legal appeals that are still in the courts.

Now, rather than assume a counterparty is eligible under existing statutes, banks and other dealers are demanding a definitive body of law.

In the US, lobbyists have persuaded about 25 states to enact laws defining who can use derivatives. Lawyers say the process has been slower in other countries, particularly in Germany.

Despite the huge amounts of money sloshing through the over-the-counter markets, industry advocates say there have been remarkably few defaults. A recent ISDA survey put cumulative losses at a mere $358m in the past 10 years, and half of those were attributed to the *Hammersmith* case.

The past cannot necessarily predict the future, however, and credit risk is the predominant concern of every derivatives dealer and bank regulator.

Most swaps dealers use standard contracts to define their transactions, and to reduce credit risks, many engage in bilateral netting agreements.

If the contract is terminated early, because of bankruptcy or liquidation, the netting agreements allow payables and receivables to cancel each other out, limiting the credit risk of the solvent counterparty to net exposures.

Enforcing netting is rife with potholes, however, and only slowly are bankruptcy judges and others recognising them as valid.

Of all the industrialised countries, lawyers say France is the most questionable jurisdiction for enforcing netting.

A 1989 ruling in the US allows netting between US-based counterparties, and the practice is generally recognised in the UK.

The Basle Committee on Banking Supervision of the Bank for International Settlements in April released a proposal to recognise bilateral close-out netting as a means of reducing credit risk for the purpose of measuring bank capital adequacy. It is now seeking international comments on the plan.

A controversial offshoot of the netting discussion is the idea of multibranch netting. A financial institution with operations and assets worldwide will choose a location, for tax or other purposes, in which to register a swaps transaction.

If an institution finds itself in collapse, as happened in the case of the Bank of Credit and Commerce International, world bank regulators may wrangle over the proper way to deal with the remains, putting the integrity of the netting agreements in jeopardy.

Mr Cunningham says the issues of enforcability of multibranch netting have gained attention since the BCCI case. A derivatives report issued in July by the Washington-based think-tank, the Group of Thirty, suggests a solution. "Resolution will come only if and when it is clear that insolvency of a bank with several branches in different countries will be handled as a single proceeding and not as separate proceedings for the bank and each branch," he says.

This recommendation, and others like it, leans towards standard global financial regulation, an evolution that legal demands of derivatives trading may accelerate.

Laurie Morse

DERIVATIVES 5

COMMODITY PRODUCTS

Cutting raw material risks

IN SPITE of low commodity prices in recent years, a range of innovative hedging arrangements offered by banks and brokers has appeared on the market. Some bankers see the slight upturn in commodity prices in recent months as an *indication that* a recovery has set in which could give a new boost to commodity swaps and over-the-counter derivatives.

"If base metals prices bottom out and we see a turnaround, the growth in that market could be huge as most consumers are currently not hedged," said Mr Per Sekse, vice-president for commodity derivatives at Chemical Bank in London.

Crédit Lyonnais, the French investment bank, is so confident of finding new business in the commodity derivatives sector that it set up a new arm in September, Crédit Lyonnais Rouse Derivatives, to extend *its involvement into structured* finance deals.

However, commodity prices have been depressed for several years and, overall, have declined again this year. Goldman Sachs's commodity index, which tracks the prices of a range of commodities from metals to energy and agricultural products, showed a 4.4 per cent decline in the year to the beginning of October.

Goldman is forecasting a modest upturn in prices over the next six months, fuelled by supply-demand imbalances as low prices have not encouraged investment in new capacity.

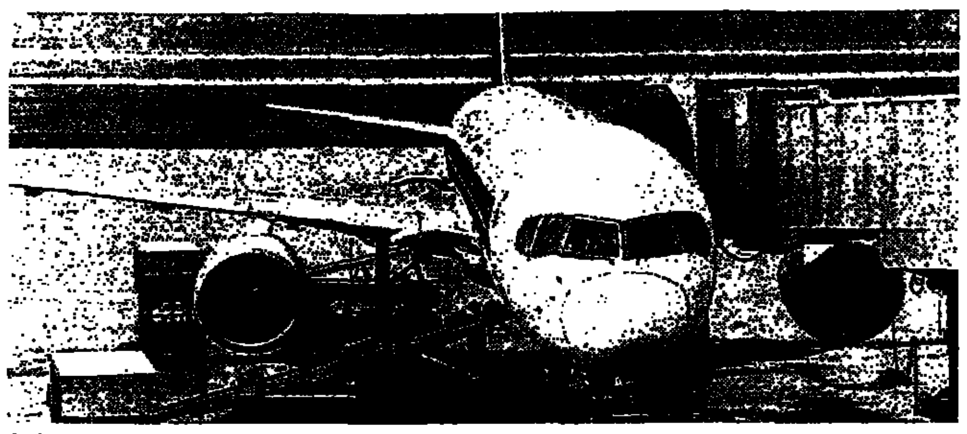
In a low price environment, commodity derivatives can allow a company to lock in a price – either for its raw material or for its sales – and at least meet its budget objectives when cashflow is stretched.

By using OTC products, companies can also hedge to position themselves strategically in the market for a number of years ahead.

These derivatives are often also traded on futures exchanges, but banks can cut individual deals in the OTC markets that extend years beyond the timescale offered by the traditional exchanges.

The most sophisticated area of hedging in the OTC market is in the energy sector where the exchanges do not always provide products that cover parts of the refined oil barrel. For instance, although there is a thriving futures market for crude oil in London and New York and gas oil in New York, there is no exchange-traded futures contract for jet fuel.

Mr Sekse describes how a leading oil company recently bought an option on the spread between jet fuel and gas oil. This covers the company's risk of hedging its jet fuel sales to airlines by using gas oil futures. The prices of jet fuel and gas oil are different, so the company runs a certain amount of risk of those prices diverging: that risk can be limited by buying a tailor-made option on the spread between the prices of the two fuels.



Fuelling activity: hedging to protect the bottom line — Picture: Glyn Genin

Mr Chris Mason, managing director at Crédit Lyonnais Rouse Derivatives, says airlines have increasingly been using swaptions in jet fuel as a way of reducing their fuel costs. Some 18 to 20 per cent of an airline's running costs are accounted for by the fuel bill and using fixed and floating rate price swaps, CLRD can reduce that bill by 1 per cent.

Energy companies and airlines are more sophisticated users of these types of hedging deals – more so than similar companies in other sectors. Many banks and brokers are trying to move into a position where they can offer these products to carmakers, for example, food companies and aluminium smelters.

"You are battling with an inherently bullish attitude among management," Mr Sekse says. "They say the reason they are in the commodity business is so that their share prices carry commodity price risk and they always believe the price is going to go up again." His challenge is to convince some conservative company managers that "not hedging is as risky as hedging".

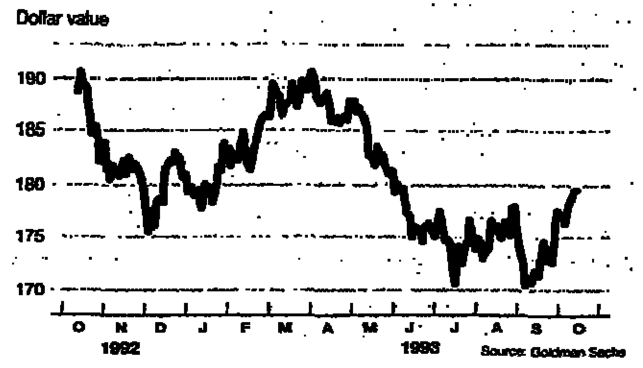
Mr Mason adds that for some mine operators, hedging could be the deciding factor on whether or not they get bank financing for their start-up costs. CLRD offers a rolling hedge for, say a copper mine, to lock in the price of its output for five years making the project more viable.

CLRD will also finance the cost of holding metal stocks for an aluminium company. The company can *sell its entire* stock to the broker and then buy it back when it needs it – buying at a spot price which is cheaper than the forward price. It helps the company to get the cost of carrying stock off its balance sheet and the broker locks in a profit by selling the metal forward which it *shares with the metal* producer.

Hedging is less familiar in the agricultural and soft commodities sector, not least because the prices of many products are government-controlled. Some consumers are using the OTC markets to hedge purchases of frozen orange juice, but Mr Mason believes the food sector could offer enormous potential for these hedging arrangements because it is largely untapped.

There is no regular deal flow for banks and brokers from this sector of the market, but much marketing effort is being directed at this type of business.

Goldman Sachs commodity index



"It can take a lot of patience to convince producers of the need to hedge soft commodities – often as long as six to nine months before they start looking at a deal," said Mr Sekse. The timing is also crucial since the market could, in the meantime, have moved in the wrong direction and the producer could be put off again.

In the agricultural sector, a number of banks and brokers are working on a hedge for the green pound – the theoretical currency linked to the Ecu in which EC farmers are paid subsidies. This is almost impossible to achieve, but is in demand from food manufacturers.

The food companies are less interested in hedging since they tend to have higher margins than companies in the energy sector and can more easily absorb changes in prices of raw materials. But a number are beginning to look at the possibility of locking in some prices.

The commodities sector offers wide potential for innovative deal-making and growth in future is expected to come – at least initially – from the energy business. Other sectors present a hard sell to the banks involved in the business and a challenge to convince conservative companies to dip a toe in the complex waters of derivatives.

Deborah Hargreaves

EQUITY PRODUCTS

Hedge against stock swings

IF YOU peek into the portfolio of an equity fund manager nowadays, the chances are that you might not find any shares. Instead, there could be a whole load of bonds in the portfolio.

Before you sue the fund manager for misrepresentation, there is a good reason for what appears to be a contradictory state of affairs.

The fund manager will be using the income from the bonds to buy equity derivative products which should enable his fund to achieve higher returns than other similar funds in the market place.

Equity derivatives have become an integral part of a fund manager's life as the fund management industry becomes increasingly competitive. "Fund managers are doing everything possible to get the best performance," says the head of equity derivatives at a leading Japanese bank in London.

In addition, the use of equity derivatives is now spreading to all areas of finance as a higher priority is given to managing risk as effectively as possible.

Users of equity derivatives can be divided into three main categories: insurance companies and investment fund companies which want to launch new products to sell to their retail clients; pension funds which want to have an exposure to a certain equity market without having to go out and buy shares in that market; corporate treasurers who want tools to manage or hedge different exposures on their balance sheets.

Most equity derivative products, which are traded over the counter (OTC) or on futures and options exchanges, can be tailored to each client's specific needs.

"Essentially, we use equity derivative products to solve any problems which our client might have," says one derivatives trader.

Some traders say that the drawback of these individual structured deals is that they are not liquid and are difficult to get out of once you are in. However, others say that these deals are essentially made up of a series of building blocks which can be unwound at any time.

As a result of the customised nature of the market, most of the innovations in equity derivatives products are born in the over-the-counter market which can cater for individual needs. However, the exchanges are quick to catch on to any new products.

Although products traded on the exchanges tend to be more standardised than those in the OTC market, they are attractive to investors who are not *allowed to buy products which* are not listed.

One important advantage of buying a listed product is that the exchange acts as a central clearing house which helps to reduce a market participant's credit exposure.

By contrast, participants in the OTC market may well trade directly with a counterparty which has an inferior credit rating.

However, an increasing number of entities with triple-A ratings are starting to provide derivative products in the OTC markets which should help to reduce this credit risk concern.

There has been an enormous growth in volume in equity derivatives products and investors can now have an exposure to all the leading stock mar*kets in the world without hav*ing to actually buy shares in those markets.

The next target will be emerging stock markets in Latin America and Asia as soon as they are deemed to have sufficient liquidity to support a derivatives market. Mexico, Hong Kong and Singapore are likely to be the first to take this step.

The types of products on offer are also becoming increasingly exotic and investors can now hedge themselves against virtually every movement in a stock market.

"There are few limits left to what we can offer investors as long as they pay to take the risk and the reward," says a derivatives trader at a UK securities house.

Retail investors are also creeping into what is still a largely institutional domain since equity derivatives are being used to structure OTC products which guarantee a specific return.

These "guaranteed return" products are heavily marketed to retail investors who have seen their income from cash deposits dwindle over the past year as a result of the substantial drop in interest rates.

These kinds of products, which rely heavily on derivatives for their ability to outperform the underlying equity market, are widespread in the United States but are relatively new in Europe.

In the UK, the wider use of derivatives has been held up by legislative and fiscal diffi*culties. However, now that* these issues have been clarified there has been a tremendous increase in OTC products *which are sold to retail inves*tors.

Liffe, London's financial futures and options exchange, is relying on retail investors as part of its ambitious plan to stimulate new interest in equity options.

In the US and in the Netherlands, it is the retail investor, and not the institutional client, who is responsible for about 70 per cent of trading volume in these instruments.

In the UK, the situation is the reverse, with private investors estimated to contribute less than 20 per cent of total equity and index option volume.

Liffe has therefore taken steps to make equity options more accessible to the public. Prices of individual equity options are now available on the BBC's teletext facility, Ceefax.

Retail investors were also *given priority when Liffe con*ducted a review of individual equity options. The exchange dropped four existing options *and introduced eight new ones,* leaving 70 equity options which better reflect the composition of retail and institutional portfolio holdings.

Liffe does not expect investors, large and small, to change their habits overnight, but aims to double trading volume of equity options within two years. Currently, just over 1m contracts are traded each quarter.

Trading in equity options reached a high of 3.1m contracts in the second quarter of 1987, just before the global stock market crash which occurred that October.

While a volume-based target is probably the most widely perceived measure of success, Liffe believes that other goals are equally important.

These range from a substantial increase in the use of equity options by institutional and private clients, to *increased liquidity in individ*ual equity options.

Antonia Sharpe

Tracy Corrigan examines the growth of futures exchanges

Quirky offshoots gain respect

TWENTY years ago, futures exchanges were viewed as quirky offshoots of larger markets. Although still treated with suspicion in some quarters, futures exchanges have now positioned themselves at the heart of the world's financial markets.

According to a recent report by the Group of Thirty, the Washington-based think-tank, the notional amount of futures traded annually is now estimated at $140,000bn.

The growth of futures markets has been fuelled by the increased sophistication and internationalisation of financial markets, including the proliferation of complex over-the-counter products which are then hedged using exchange-traded products. In fact, the rapid development of financial markets in the past 20 years could arguably not have been realised without the growth of futures and options exchanges.

As barriers between markets have fallen, and international investors have turned their attention to new markets, the establishment of futures contracts has been an important factor in ensuring liquidity and hedging opportunities. The new techniques developed in the derivatives markets have had an impact on investment management, trading, technology, and risk management. In spite of this success record, the exchanges themselves appear less than confident.

In the US, the futures business is showing all the signs of a mature market – margins are shrinking, competition is intense, and market share is being lost to younger European exchanges. But in Europe, too, in spite of annual volume growth of 40 per cent for many exchanges, exchanges are aware of new pressures. Mr Jörg Franke, chairman of the Deutsche Terminbörse in Frankfurt, believes that with more than 20 futures and commodities exchanges, Europe has more exchanges than it needs.

Although new products are still being launched, the flow is easing, as the pool of potential new products dries up. Without new contracts such as Italian bond futures, it will be more difficult for European exchanges to build volume. For all exchanges, the development in the past few years of an increasingly active over-the-counter market in products such as swaps and options, which can be used for some purposes instead of exchange-traded products, is a cause for concern.

Mr Lynton Jones, chief executive of OM London, believes the OTC market will continue to grow "but some of their new products will be adapted for exchanges". The most successful such attempt so far is the Chicago Board Options Exchange's FLEX options, which have exceeded $10bn in underlying notional value in the first seven months of trading. FLEX Options allow investors to use customised derivatives based on stock indices to select various terms such as strike price and maturity.

Exchanges have also been trying to prepare themselves for a potentially more difficult environment by creating cross-trading agreements, linkages and even partnerships. One example is a grouping of smaller European exchanges, known as First European Exchanges (Fex). The only linkage currently in place is between OM London, the Swedish-owned electronic exchange, and the European Options Exchange in Amsterdam. Under that agreement, EOE members have OM screens on their desks in Amsterdam. However, OM members are linked to the EOE only by telephone. Not surprisingly, the flow of business from EOE members to OM has been the more significant.

Fex's other plans have already faltered. In July, Switzerland's Soffex was forced to pull back from its linkage plans under pressure from Swiss banks which want to get their own electronic stock trading system in place first.

Still in the early stages is a linkage of France's Matif and Germany's Deutsche Terminbörse, using DTB screens. As these exchanges command some of the most actively traded contracts in Europe, this alliance could become a powerful force.

The development of these linkages has fuelled discussion of technological developments. Such linkages only really function efficiently for products traded on a screen. Most large exchanges still trade using the traditional open-outcry method, which involves grouping traders in a large pit. Proponents of open-outcry trading claim that screen systems cannot cope with heavy volume.

The success of the DTB has shown that screen trading does not necessarily mean illiquid trading. Nevertheless, most traders familiar with both methods prefer trading using the open-outcry method. Some, though, say that it is only a matter of time before the technology of screen-trading is sufficiently advanced to be able to simulate pit-trading.

Despite its shaky start, the most important development in exchange trading so far this decade was the launch last year of Globex, the international after-hours screen trading system jointly developed by Reuters and the Chicago Mercantile Exchange and the Chicago Board of Trade. Volume on the system jumped when France's Matif, the only exchange to join the system so far, added its products earlier this year; but much of the volume was a direct shift of business from the Matif's over-the-counter after-hours market, which closed at the same time as Matif products moved on to Globex. Globex has also been dogged by squabbles between the two exchanges, and failure to reach agreement with other potential members of the system, particularly Liffe.

Nevertheless, the description of the system at its launch by Mr Leo Melamed, then head of Globex, as "the dawn of a new era", could still prove true. The Chicago exchanges point out that the system cannot be judged to have failed until it has screens all over the world, as envisaged in their original vision of a global trading village. "How do you sell hot dogs in Japan when you don't even have a hot dog stand there?" asks Mr Jack Sandner, head of the CME. Globex has only recently received regulatory approval to install screens in Asia, which is potentially the key time-zone for the after-hours market, and is starting a marketing thrust in the region.

Nevertheless, the success of the system will also depend on attracting other exchanges to list their products. The recent reopening of talks between Liffe and Globex is clearly a hopeful sign, but the battle for a critical mass of volume on the system has yet to be won.

Volume on international futures and options exchanges

	Number of contracts traded	
	Jan-Dec 1991	Jan-Dec 1992
Chicago Board of Trade	139,437,140	150,030,460
Chicago Mercantile Exchange	108,128,604	134,238,555
Liffe, UK	38,583,877	71,977,025
Matif, France	36,978,966	55,474,238
New York Mercantile Exchange	40,786,714	47,212,417
BM&F, Brazil	18,768,564	35,072,146
DTB, Germany	15,369,730	34,842,778
London Metal Exchange	16,937,909	24,736,920
Osaka Securities Exchange	33,478,949	21,184,310
Sydney Futures Exchange	12,496,018	17,557,685
Stockholm Options Exchange	13,442,850	17,147,096
Tokyo Intl Financial Futures Exchange	15,149,104	15,540,487
Tokyo Stock Exchange	16,601,899	14,538,717
Tokyo Comm Exchange Industry	14,949,199	13,585,379
Commodity Exchange, Inc	15,123,655	12,673,179
Tokyo Grain Exchange	9,699,883	12,416,671
Simex, Singapore	6,068,044	12,180,174
Intl Petroleum Exchange, UK	8,412,689	10,674,803
Coffee, Sugar & Cocoa Exchange	9,494,734	9,275,708
Soffex, Switzerland	6,971,740	9,258,859
Osaka Grain Exchange	4,123,743	5,441,392
European Options Exch, Amsterdam	3,469,945	3,856,247

Source: Futures Industry Association (provided by exchanges); excludes individual equity options

CLEARING

Swaps trade dodges issue

Now that the debate for a multilateral swaps clearing house has died down, even the most self-interested proponents recognise that the swaps trade, a highly customised retail market, will not fit into a wholesale clearing mould. Laurie Morse examines the options

John Davidson: the need for a clearing house has diminished

THE IDEA of a futures-style clearing house for over-the-counter derivatives gained prominence early this year, in part because the US government had just exempted swaps from US commodity regulations, increasing the uneasiness politicians and bank regulators have about the $7,000bn market.

Advocates argued that a multilateral swaps clearing house would broaden access to the burgeoning market, reduce credit risks, and produce reams of data for regulatory scrutiny. The world's biggest futures exchanges, at least one law firm, and several dealers rushed to research prototypes.

However, the handful of AAA-rated banks and dealers who conduct 80 per cent of the world's swaps trade carefully sidestepped the clearing house debate, knowing that without their participation, a swaps clearing house would not succeed.

They value the competitive edge their credit ratings deliver, and are satisfied with their own credit controls.

Now that the excitement has died down, even the most self-interested proponents recognise that the swaps trade, a highly customised retail market, will not fit into a wholesale clearing mould. Consensus is building that what is needed instead is a series of third-party agents providing services usually performed by a clearing house.

Dealers would continue bilateral netting, using standard master agreements like those provided by ISDA, the International Swaps and Derivatives Association, but trade matching confirmations, collateral handling, and depository duties would be outsourced to others.

"There are credible substitutes provided by reputable institutions for almost every individual function of a swaps clearing house," Mr John Davidson, senior vice-president of the Chicago Mercantile Exchange's clearing operations, told a banking group recently. "As their functionality improves, the incremental need for a clearing house diminishes.

The swaps industry perhaps has learned from the long, controversial, and expensive attempts to develop clearing houses for over-the-counter foreign exchange transactions. Several ventures, such as New York-based FxNet, has bilaterally netted spot trades for years. However, multilateral clearing remains elusive, and most efforts have avoided derivatives altogether.

Two competing groups, one on each side of the Atlantic, plan to offer multilateral foreign exchange contract netting and global settlement services next year, and intend to include forward contracts as well as spot deals.

Multinet, backed primarily by First Chicago and Chase Manhattan, will use the services of the Options Clearing Corp.

Multinet lost the backing of several top-rated banks when they realised the venture, by enhancing credit quality, could strengthen their weaker rivals. "We knew from the start this was a project subject to fractious relationships," says Mr Garrett Glass, a senior vice-president at First National Bank of Chicago, and the chief architect of the six-year-long project.

Echo, or the Exchange Clearing house, has much the same object as Multinet. Based in London it has a dozen bank shareholders, and is being directed primarily by Barclays. Its prolonged development has been due to difficulties in guiding its charter through jealous waters, and to the fact that starting any kind of clearing operation from scratch is extremely expensive.

In the swaps market, the credit worries extend far beyond initial settlement risk, with credit exposures extending over the term of the contract. Banks, even more than regulators, are concerned about this exposure.

In addition to imposing strict credit quality standards and credit limits on customers and counterparties, the swaps industry has begun to collect collateral on all but the most standard transactions, and to mark positions to market to assess risk ore accurately .

Both practices are the basis of the high credit quality awarded to exchange-affiliated clearing houses.

Although the CME has considered developing a swaps clearing house, Mr Davidson says that fundamentally, the existing system of counterparty credit limits works. "Banks and other financial intermediaries are good at applying them, supervisors are good at reviewing them, and senior management understands them. Rapidly untethering the swaps market from its current, largely self-imposed limitations, may not have entirely desirable systemic risk implications," he says.

If the primary swaps dealers do begin to move toward an organised clearing house, they will be driven by regulatory capital requirements. It is widely assumed that a fully collateralised swaps clearing house would be exempted from requirements to beef up capital to back up trades.

However, if this spring's Basle Committee proposal to recognise bilateral close-out netting is approved, capital reserve requirements for swap-dealing banks could be trimmed by more than half, according to Mr Ottho Heldring, a vice-president at Chase Manhattan Bank. That, in turn, would widen the use of standard netting agreements, and hasten the evolution of agents to service settlement and collateral processing needs.

One such service is Bankers Trust's C-Trac+, which offers third-party processing for all types of collateralised OTC transactions.

Capitalising on the bank's own derivatives processing capabilities, the product tracks exposures, makes margin calls, and handles the pricing and custody of the assets pledged as collateral.

Ms Eileen Bedell, managing director for Bankers, says the product is aimed at derivative dealers that may not have fully developed back office procedures, and find using the system less expensive than developing in-house capabilities. She thinks that as the derivatives business becomes more competitive, consolidating back-office functions will become more popular.

"People will begin to realise that a swaps trading model is proprietary, but margin tracking is not," she says.

However, since most leading dealers have already invested in their own processing functions, she says the new services can only compete by reducing costs and increasing profitability.

FUTURES FUNDS

Europe waits for floodgates to open

A STRONG performance by futures funds so far this year could help get the nascent European market off the ground. According to industry estimates, around $20bn is under management in futures funds in the US, but the size of the market is much smaller in Europe – probably between $2-3bn. The European market also remains fragmented.

Most funds are registered in offshore financial centres, and pitched at high net-worth individuals or small institutions in specific regions. Variations and inconsistencies in the regulatory framework make it more convenient for fund managers to register funds offshore, although most European futures fund managers are based in London.

In the US, the strong regulatory environment and strict performance reporting standards have helped futures funds to gain a respectability which they have yet to acquire in Europe. For example, a number of US state pension funds now publicly invest a portion of their portfolios in futures funds.

Ms Nicola Meaden, managing director of TASS Management, which tracks futures funds, says that there has been an increase in the number of funds launched in Europe this year, but mainstream institutional interest has been slow to develop. "We are not seeing the floodgates open. In the short term, institutions are finding it easier to tackle the hedge fund managers," Ms Meaden said. However, this year's strong performance may provide the European futures fund business with some fresh impetus.

In the first eight months of this year, the average total return achieved by futures fund managers was 17.45 per cent, according to the TASS index of CTAs (commodity trading adviser – the industry term for the manager who decides the investment strategy of a particular fund). The reason for this strong performance is that "we have had trending markets", according to Mr Peter Swete, chairman of Sabre Fund Management, a futures fund specialist which is now partly owned by Henderson.

Unlike most other investments, the performance of futures funds depends less on whether markets are up or down, and more on the patterns of those movements. Although the strategies of futures fund managers vary considerably, what they have in common, apart from their use of derivatives, is that they are based on data analysis and computer power.

Floor show: trading on London International Financial Futures Exchange

Picture: Ashley Ashwood

Mr Swete, whose funds have risen 30 per cent over the past 12 months, says that their strong performance has attracted new money, doubling the size of funds under management for the same period. "I think it has been a better year generally in Europe, mainly because there has been better performance after two or three grim years," said Mr Mark Fox-Andrews at Mees-Pierson Derivatives.

The increase in investor interest comes mainly from continental Europe, not the UK, according to many industry specialists. One reason is that "continental European banks are moving into the futures fund business," Mr Fox Andrews says.

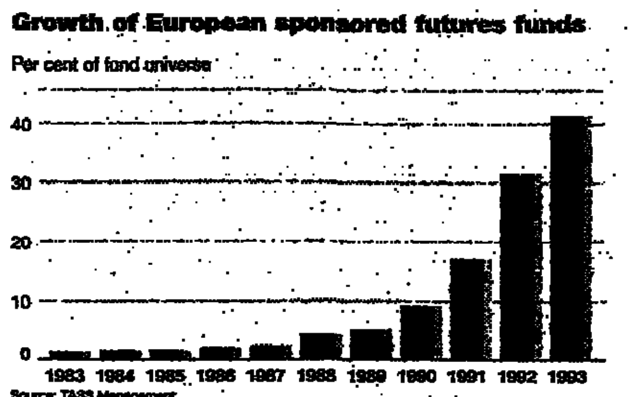
A number of French banks, such as Indosuez, have been active in the market for some time, but are now being joined by more Swiss, German and Dutch banks. US banks are also becoming more active, though they tend to take a slightly different approach. A number of them had lost traders from their proprietary trading desks, who had decided to apply their skills by setting up their own funds. Seeing an opportunity, several banks decided to take advantage of this home-grown talent by setting up futures fund departments staffed by former proprietary traders.

"Every major bank is now looking at this area," according to one futures fund manager, but many still have bad memories of being scalped by futures brokers in the 1970s. This has also haunted the retail side of the industry in the UK, which has not taken off in spite of the authorisation of futures funds in the form of unit trusts.

Only a handful of futures and options funds (Fofs) and guaranteed futures and options funds (GFofs) have been launched, partly because futures fund managers are not able to pay themselves the high fees to which they are accustomed.

"If you really want the top people you must pay them the top fees," said one fund manager. Standard performance fees on offshore futures funds are 15-20 per cent. However, management fees have fallen in recent years from around 4 per cent to 1-2 per cent.

Growth of European sponsored futures funds



Source: TASS Management

There are plans to relax the rules on fees for UK-listed futures funds, but so far retail investors have not appeared hugely enthusiastic. However, one regulatory development which should help the UK futures fund business – or at least prevent practitioners from moving offshore – is the proposal by the Securities and Futures Authority to recognise fund managers in the sector as a separate category, defined as DFMs (derivative fund managers). Because they do not hold any funds directly, they are to be allowed lower capital requirements.

However, this is set to change when the EC Investment Services Directive comes into force in 1996. At present, it is hard to predict the shape that the futures fund industry will take over the next few years.

It is still highly entrepreneurial, one of very few areas of financial services where it is possible to start from scratch, establish a track record, and grow very rapidly.

Recent interest from banks suggests that the industry may become more institutional in character. In addition, the growing use of derivatives and of highly analytical computer trading techniques has blurred the lines between different types of investment. In particular, it is increasingly hard to draw a line between futures funds and hedge funds.

Tracy Corrigan

TECHNOLOGY

Integration top of the agenda

IF ANYONE needed reminding that players in the derivatives markets need to do more work on integrating their front and back office technologies, this summer's Group of Thirty report should have done the trick.

The G30 study looked into derivatives technology and systems, and singled out integration as the most important issue facing the commercial and investment banks which run big derivatives books and the large corporations that use the products to manage the risks of their day-to-day businesses.

As the group's systems, operations and controls subcommittee said: "Systems that integrate the various tasks to be performed for derivatives are complex. Because of the rapid development of the business, even the most sophisticated dealers and users often rely on a variety of systems which may be difficult to integrate in a satisfactory manner. While this situation is inevitable in many organisations, it is not ideal and requires careful monitoring..."

Integration matters most to derivatives dealers because without integrated systems, they may not be able to properly measure, monitor and control the various risks they carry on their books. The G30 is right to be concerned, because by no means do all dealing firms in the business boast fully integrated derivatives technology.

"Most banks have a patchwork quilt of systems," says Mr Rod Beckstrom, founder of California-based technology group C*ATS Software, who says that only a handful of the biggest and most experienced derivatives players meet the sort of standards outlined in the G30 report.

Mr Patrick Brazel, senior vice-president at UK-based derivatives technology vendor SunGuard Capital Markets (previously Devon Systems), agrees: "I don't think the banks in general have cracked the problem of front to back office integration."

That the dealing community continues to struggle with integration is primarily due to the frantic pace of product development in most front offices. As one software supplier explains: "New products are introduced to the market when there's a need for a specific structured product, yet the systems to support those products are developed entirely on an ad-hoc basis."

Consequently, back offices find themselves constantly playing a game of technological catch-up with the front offices which keep coming up with a supply of new products (or old products with new twists) tailor-made to satisfy their clients' needs.

Building integrated systems, however, is not a simple task. Derivatives technology, like derivatives themselves, has evolved in a random fashion. Dealers have relied upon a variety of software and hardware, not all of it compatible, to create, price and track derivatives instruments. Some of are developed in-house, and some are bought from software vendors which specialise in selling derivatives management systems. Many employ a combination of the two.

Without integrated systems, derivatives dealers may not be able to properly measure, monitor and control the risks they carry on their books

When it comes to buying in the technology from outside (an option that more and more dealers are taking as the number of derivative systems suppliers rapidly grows), many firms purchase what are known as "turnkey" systems, which offer a complete off-the-shelf software package that aims to provide a dealer with everything needed in the way of pricing, portfolio analysis and risk management functions.

This is what the established derivatives technology suppliers – companies such as SunGuard, C*ATS and Quotient – generally offer. Mr Beckstrom says his firm sells software that "allows treasurers to define and capture complex derivatives, pull them in electronically and provide the tools to do risk management analysis and reporting".

Other products, known as "toolkits", are more adaptable to technology which provide the buyer with the flexibility to take their systems wherever they wish in an open environment. They may not be ready to use as fast as the turnkey systems, but they give the buyer more room to tailor the technology to their own needs.

Mr Roger Lang, of US systems supplier Infinity International Financial Technology, says that banks and other derivatives dealers need "leverageable tools and building blocks" to construct their own functions and support their own models. When it comes to integration, "we have to be able to allow banks to determine their own fate," he says.

A similar theme is sounded by Canadian consulting and software firm Glassco Park, which sells software that can work inside other applications – in this case, Microsoft Windows. Mr Robert Park, of Glassco Park, says that in the past many derivatives dealers' systems "were built around a database file format appropriate only for accounting, which over the years has been modified and remodified to try to accommodate new financial structures".

In contrast, Glassco Park's approach is to build maths libraries to explain the parts found in derivatives securities, and allow companies to construct their systems around those libraries. The firm claims that is an affordable and quick way to build integrated risk management systems, saving the time and money involved in developing them from scratch.

While the buy-side has been investing heavily in derivatives technology, a small but growing band of the corporations and investment institutions on the sell-side have also been upgrading their systems.

This summer, Atlantic Portfolio Analytics and Management, a $3.7bn fixed-income fund manager, bought a Cray supercomputer system to compute complex arbitrages, swap options and hedges in a variety of cash and derivatives markets. Although several securities firms, such as Prudential Securities and Merrill Lynch, use supercomputers, APAM became the first buy-side company to turn to supercomputing.

Also this summer, BP Finance, the banking and treasury subsidiary of the UK oil group, began installing a real-time, deal-capture, position-keeping risk management system from Wall Street Systems for its 200 foreign exchange and derivatives traders in the US, UK and Australia.

Patrick Harverson

REGULATION

Temperature has cooled markedly

EIGHTEEN months ago, the approach of regulators and legislators to the over-the-counter derivatives market was, if not hostile, certainly combative.

The blunt warning about derivatives sounded in January 1992 by the then president of the Federal Reserve, Mr Gerald Corrigan, still rang loudly in bankers' ears, and a small army of regulators from the US and overseas (including the New York Federal Reserve and the Bank of England) were studying the lightly regulated OTC business.

At the same time, lawmakers in the US were getting in on the act. Badly burned by the multibillion dollar collapse of the US savings and loan industry and by the meltdown in the junk bond market in the late 1980s, and by the near-collapse of some of the country's biggest banks at the start of the 1990s, Congress did not want to be caught asleep on its financial watch again.

Eager to be fully informed of the growth of the over-the-counter derivatives business and its potential impact upon public policy, various key finance and banking committees originated their own inquiries, and several leading members of Congress hinted at the possibility of legislation to control, if not curb, the growth of derivatives.

At that time, the creators and users of derivatives were being put on the defensive. Essentially, regulators and US legislators were asking them to prove that the myriad of risks that banks and corporations take on when using derivatives did not threaten the health of an increasingly inter-connected global financial system.

Over the past 18 months, the banks and securities houses which create and sell derivatives, with the help of the corporations and institutions which use them, have helped answer some of the many questions surrounding the business. The result: the temperature of the regulatory climate surrounding the derivatives business, so hot 18 months ago, has cooled.

Mr Joe Bauman, head of business development for global derivatives at Citibank in New York, and spokesman for the industry in his capacity as chairman of the International Swaps and Derivatives Association (Isda), says regulators and legislators are definitely taking a more "constructive and understanding" approach to the business today. "They have shown a willingness to take a harder look, to get behind the generalities."

Mr Bauman and other bankers point out that regulators were taking such an interest in derivatives primarily because they did not understand the complexities and intricacies of business. Having failed to track the early development of derivatives, regulators were behind from the start, and struggled to keep up with the hectic pace of innovation.

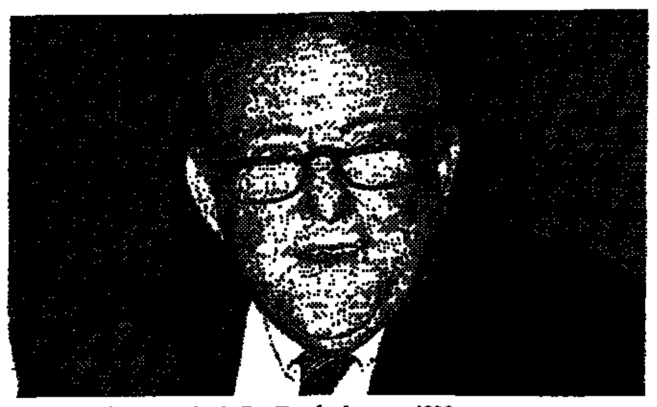
This is a point that the regulators have openly conceded. Last year the then US Treasury secretary Mr Nicholas Brady referred to the "wide knowledge gap between regulators and regulated", echoing earlier comments from a senior Bank of England figure who said the gap was "too great for normal communication".

Since then, the knowledge-gap has narrowed. Not only have the regulators started, and in many cases completed, their investigations of derivatives, but banks have gone out of their way to educate regulators about the business. When it comes to the question of whether new risks to banks and the financial system are posed by the growth of derivatives, Isda's message has always been that "the risks are there already, and what needs to be understood is the ways those risks are managed," says Mr Bauman. With the help of a series of derivatives seminars hosted by banks for government officials, that message is now getting across.

In their mission to educate regulators, bankers have been helped by some of the recent studies on derivatives published around the world. None has been more helpful than this July's report from the Group of Thirty (G30). Although many of its authors were prominent members of the international banking community, and therefore deemed unlikely to criticise a business that was generating billions of dollars of profits for the industry, the G30's pronouncements were still eagerly awaited.

Joe Bauman: a more constructive and understanding approach

Alexandre Lamfalussy: banks' balance sheets less transparent



Gerald Corrigan: set the ball rolling in January 1992 *Picture: Lydie van der Meer*

In the event, the study generally concurred with earlier reports by the Bank of England and the BIS and gave the derivatives business a clean bill of health, recommending only a series of management and operational reforms banks should undertake to reduce risks. Bankers said they hoped the study and its recommendations would become a blueprint for regulators.

The G30, however, steered clear of tackling the one issue that worries regulators most – the possibility that something may go wrong in the over-the-counter derivatives market that prompts a worldwide banking and financial crisis.

That this threat still troubles regulators was evident in June when Mr Alexandre Lamfalussy, general manager of the BIS, called for the drawing up of common international standards on banks' disclosures of the risks on their derivatives books. And it was also evident last month, when the International Monetary Fund published its own study about derivatives and warned that growth in derivatives trading may have created unknown risks for banks.

Both Mr Lamfalussy and the IMF made the same point. The BIS chief said that banks' participation in the derivatives markets had "reduced the transparency of their balance sheets", making it harder for regulators to predict "disturbances" that might pose "systemic problems" in global finance. The IMF said: "Participation in derivatives markets can cause firms to become connected through complicated transactions in ways that are not easily understood." This, the report concluded, made it "extremely difficult" for regulators to assess the risk of default in the system.

Regulatory scrutiny of the derivatives business is by no means over. Three Washington-based bodies, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the General Accounting Office, are all conducting studies into derivatives. And in September, the Comptroller of the Currency, a key US bank regulator, announced it was establishing a task force to monitor the market's evolution.

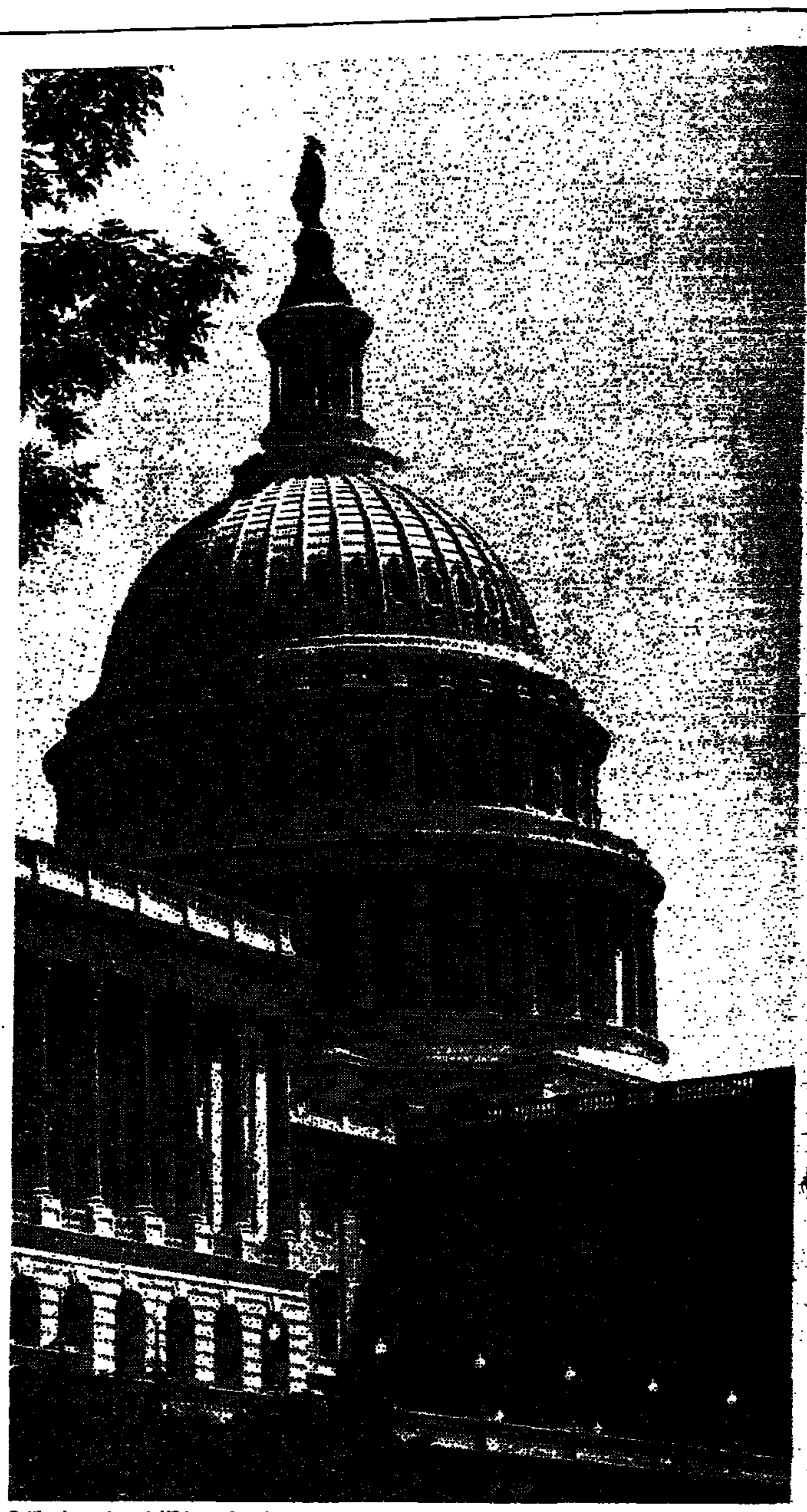
The GAO study, which was expected to be released this summer but which probably will not be out until late this year or early 1993, is particularly important because the GAO is the investigative body of Congress, and Congress is where some of the tougher questions about derivatives are being asked.

For now, Congressional interest in derivatives remains at an educational level, with banks and end-users helping the legislators learn more about the business. As Joe Bauman of the Isda says: "We are finding that there is still a fair amount of education to be done, because as a group they have not been singularly looking at financial markets, and certainly not the derivatives market."

Bankers feel this educational process is paying off. Mr Doug Kidd, who is responsible for government relations at Bankers Trust, says: "Members of Congress originally viewed derivatives as nothing more than new positioning tools for financial institutions to make directional bets on markets. Now that education generally is better, and end-users have participated in seminars and talked about how they use derivatives, there's a new appreciation among members of what derivatives are used for."

Although they may now be better informed, legislators are still keen to learn more about derivatives, and a series of committee hearings on the business will be held this winter, including several by Mr Henry Gonzalez, chairman of the senior Congressional banking committee and a regular thorn in the side of US banks. With him, other legislators and many regulators still on the derivatives trail, banks cannot relax.

Patrick Harverson



Getting in on the act: US lawmakers have woken up to the pitfalls of derivatives *Glyn Genin*

JAPAN

JGB futures stir bad memories

THE CLOSED nature of Tokyo's financial markets was highlighted by the controversial launch of Japanese government bond futures on the Singapore International Monetary Exchange this month.

The launch of the JGB futures by Simex, which also runs the Nikkei futures market, has bought back bad memories to Tokyo stock exchange officials, who blamed the plunge in the stock market on excessive futures and options transactions. Many in the financial markets point out that such misconceptions stem from the heavy regulation over derivative products in Japan, which has also kept the use of futures and options under-developed.

Simex launched the JGB contract after suggestions from the Managed Futures Association in the US. Mr Ang Swee Tian, president of Simex, said: "Earlier in the year we indicated that we were studying the possibilities, and there was no indication of concern then," he says.

However, TSE officials have been angered by the launch of the cheaper contract by Simex. "We only got a fax in August from Simex notifying us of the launch," says the TSE. JGB futures are already traded in London and Chicago, but this will be the first launch outside of Tokyo in the same time zone.

Simex says the commission levels are around half of those in Tokyo. TSE officials have tried to convince Simex to cancel the plan, without success. "The launch will erode liquidity in Tokyo, hence distorting prices and the efficiency of the market," says a TSE spokesman. Officials at Liffe, visiting Tokyo recently, have also denounced Simex as a "free rider" copying successful products on other exchanges.

Mr Ang contends that the move by Simex will not fragment the market, since Tokyo's JGB futures market is already huge with widespread participation. Volume on the Tokyo JGB futures is about six times that of Singapore.

Tokyo financial authorities have warned Japanese brokers and traders against marketing, or using the Simex futures. However, this will not stop overseas investors, including overseas affiliates of Japanese brokers, from trading. Some traders point out that the move by Simex reflects growing demand from non-TSE members who want to trade JGB futures without paying exorbitant TSE membership fees.

However, a trader at a UK brokerage based in Tokyo says he will not use the Simex market until its liquidity and pricing efficiency has improved. "The real test is going to come when the Tokyo futures market is locked due to a large sized order," be adds.

The small turnover is expected to keep large-lot players away, and concerns over the open outcry system exists. Unlike the JGB futures traded in London, the contracts are not compatible, with the size of each contract in Singapore half the Y100m of the Tokyo contract, and positions are not transferable.

One trader at a leading Japanese house, however, points out that trading on Simex holds great potential. "From the users point of view, competition between exchanges isn't a bad thing. The TSE shouldn't involve market users in its rows," he says.

It is not the first time TSE officials have failed to persuade Simex to change its stance on products linked to the Japanese market. The TSE tried to convince Simex to implement trading restrictions on its Nikkei 225 futures contracts, following the crash in the Tokyo stock market.

Tokyo financial authorities blamed futures and options contracts for volatility on the underlying stock market, and implemented a spate of trading restrictions over the past two years. They also requested that Simex introduce stricter rules to curb trading, but Simex failed to comply.

The result of tighter restrictions and higher trading costs on the Osaka stock exchange, where the Nikkei futures are listed, resulted in a shift of trading to Singapore. Japanese officials were angered by the plunge in derivatives trading on the Osaka exchange last year, while activity jumped on Simex.

In July, the TSE drafted a new set of restrictions for the stock index futures market, including the introduction of a circuit breaker mechanism to suspend transactions when prices swing wildly.

Average daily trading volume of Nikkei futures

Year	Number of contracts
Simex	
1988	2,348
1989	3,492
1990	3,715
1991	3,045
1992	13,897
1993 (Jan-Sep)	18,898
TSE	
1988	21,752
1989	21,858
1990	55,239
1991	87,980
1992	48,289
1993 (Jan-Aug)	36,251

Source: Simex, Osaka Securities Exchange

A separate group of Osaka and Tokyo stock exchange members has been working on a new stock index for futures, and a new index was announced by the Nihon Keizai Shimbun, which calculates the Nikkei 225 index, on October 8. The Nikkei 300 is a capitalisation weighted average of 300 stocks, and a new futures contract based on the index is expected to replace Osaka's Nikkei 225 futures, which is a simple price average of 225 stocks, and has been criticised as being easily manipulated.

Meanwhile, although Japan's new coalition government is calling for less regulation and freer markets, the ministry of finance is far from easing its grip on new financial products, including new derivative instruments.

Earlier this year, the Committee to Make Tokyo Markets More Transparent and International (CTTI), an industry body made up of Japanese and foreign financial institutions, criticised the ministry's decision-making in evaluating new financial products saying it was unclear and inconsistent.

Emiko Terazono

HONG KONG

Focus on a dynamic present

IN AUGUST this year, the HK$1.93bn (US$247m) lifeboat loan, which had saved Hong Kong's collapsed futures market in October 1987, was repaid. The colony's derivatives markets were finally able to turn from a chequered past and focus on an increasingly dynamic present.

Before the 1987 stock market crash, Hong Kong had operated the second most active index futures contract in the world, but the period since then has been one of only gradual recovery. Turnover dwindled sufficiently in 1990 that there were many calls for the closure of the entire Futures Exchange.

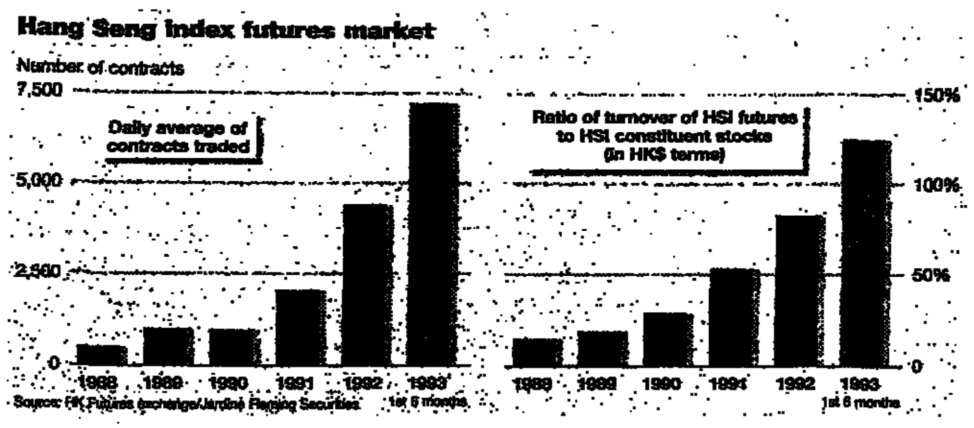
For the exchange's new management, the first push was to enforce reforms which would prevent any possible repeat of 1987. The second was to encourage nervous former participants to return to the futures market. It has succeeded on both fronts.

The recent repayment of this fund has coincided with a growing international investor focus on the Hong Kong stock market, and the result has been a rapid growth in demand for derivative products.

In the past 18 months, most of the large US securities houses have either opened up or upgraded Hong Kong offices, and one of their primary aims has been to build up derivatives business, an area which had always been peripheral.

A number of the US groups have purchased seats on the Futures Exchange, and along with other leading European and Japanese brokerages, they have helped to promote the market.

Hang Seng index futures market



Source: HK Futures Exchange/Jardine Fleming Securities

In the first six months of 1993, turnover in Hang Seng Index futures increased by 151 per cent, compared with the first half of 1992. The strong performance in the Hang Seng Index has been reflected in increased trading in the Futures Exchange's latest derivative product, the Hang Seng Index option, which was introduced in March and saw record trading in October.

The derivatives market has become dominated by the leading foreign securities houses, which have the advantages of greater capital resources, overseas expertise and global distribution. They are bringing in a global client base for new investment products.

For example, Morgan Stanley claims to have accounted for between 30 per cent and 50 per cent of daily turnover in the futures market in recent months, while Swiss Bank has taken a substantial share of trading in the options market.

The arrival of overseas brokerages has also resulted in a broadening of the range of available products to include over-the-counter or listed covered warrants and, recently, convertible loan stock.

The US securities houses were primarily responsible for introducing the benefits of convertible bond/preference share issues to conservatively-managed Hong Kong companies.

During 1993, Jardine Strategic Holdings, Dairy Farm, Wharf Holdings, Amoy Properties, Sino Land, Guangdong Investment and Henderson China all used convertible issues as a means of capitalising on the performance of Hong Kong stock prices, and the present low interest rate environment.

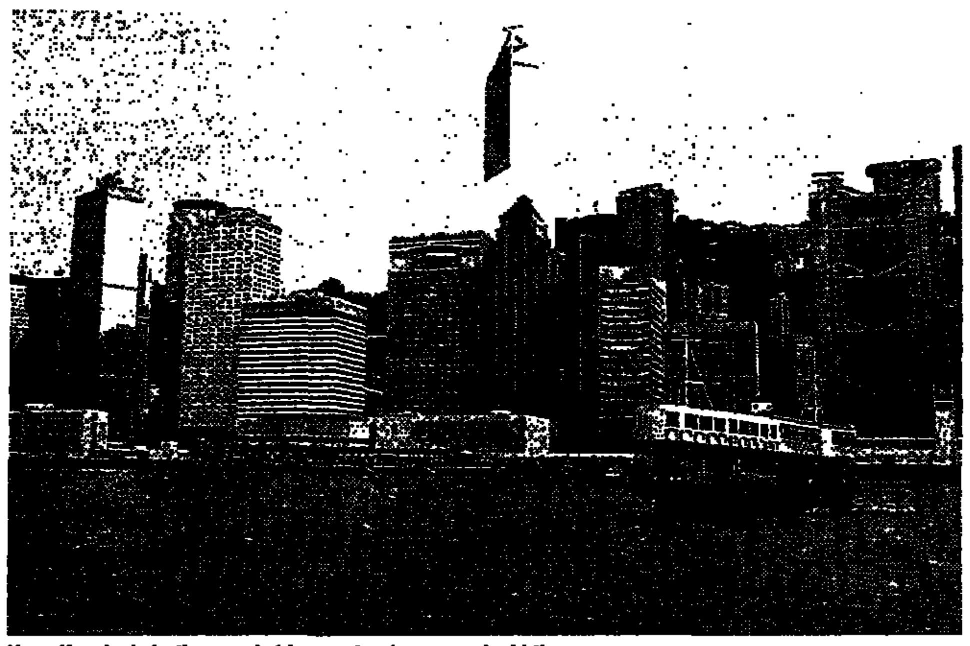
These issues have raised a total of US$929.5m (around HK$7.25bn), which is marginally less than the total capital raised in the stock market from the 18 rights issues announced during the first eight months of the year.

Mr Han Ong, managing director of Warburg Asset Management Hong Kong, said: "This change is inevitable, as the market matures and comes under the international spotlight."

When activity in the futures market peaked in 1987, index futures contracts were regarded as the ultimate speculative tool for retail investors. Trading had soared to 27,000 contracts a day, with an underlying contract value of more than HK$4.8bn (US$615m).

During September this year the average daily turnover was only 9,093 contracts. However, this is around 10 times higher than the level when Futures Exchange chief executive Mr Gary Knight joined in January 1991.

Mr Knight said: "The futures market is now doing 150 per cent of the underlying stock market turnover on a daily basis, and that is good by any international standards."



Hong Kong's derivatives market is experiencing a grand rebirth *Sarah Murray*

He attributes the growth in turnover to the performance of the underlying stock market, the rapid expansion in the number of members of the futures market, and the increase in sophistication of investors in Hong Kong.

"In 1990, a lot of people said the futures market shouldn't exist. It is now accepted as a meaningful part of the financial scene," said Mr Knight.

During 1992, there has been a substantial increase in the amount of mutual fund money coming into the Hong Kong stock market from the US. Those fund managers have demanded more sophisticated hedging tools, particularly futures contracts and over-the-counter derivative products.

The stock exchange is in the final throes of introducing a computerised trading system – automatically matching buyers with sellers – which is a precursor to lifting prohibition on short-selling, and to the launching of traded stock options on the Exchange. These are to be introduced in mid-1994.

Derivatives have long been on the speculative periphery of Hong Kong investment portfolios, but with the introduction of more sophisticated tools and a more international market place, their association with the excesses of 1987 has finally faded.

Simon Davies

MEXICO

Propelled into a new financial age

MEXICO'S growing financial integration with the US is propelling it into the age of derivatives.

On the Chicago Board of Trade, trading volume on listed options on Telefonos de Mexico, Mexico's largest stock, runs to more than $30bn a year, making it one of the most popular options on the exchange. Some 200 to 300 trades in Mexican warrants are executed every day in the over-the-counter market in Luxembourg. The market in tailor-made derivatives on blue-chip Mexican equities, debt instruments or the peso is thriving, and is even larger than the listed warrant market in Luxembourg.

Such instruments have become highly popular with investors wishing to hedge against falls in the stock market, rise in interest rates, or simply leverage their exposure to Mexican assets. They have also proven profitable for the investment banks that offer them, led by Merrill Lynch, Bear Stearns, Banker's Trust, and Goldman Sachs.

The derivative business conducted in Mexico, though, has been limited, mainly because of government regulation. Until recently the only types of derivatives that could be offered in Mexico were *coberturas, tesebonos,* and *ajustabonos.*

The cobertura is an over-the-counter exchange rate contract, in which the investor pays a premium determined in the market for the right to receive at some specified time in the future the observed peso/dollar devaluation over the period of the cobertura. Tesebono is a treasury-bill that offers dollar rate of return, protecting the investor against the devaluation. The ajustabono offers a nominal rate of return plus the inflation rate over life of the bill.

The cobertura has been popular with Mexicans keen to hedge or speculate against exchange rate fluctuations, with daily volume over $1bn. (Foreigners have had to pay withholding tax of 15 per cent, so they have shied away from the market. However the withholding tax has just been reduced to 4.9 per cent, and foreigners might now move into the market.)

But the cobertura, like the tesebono, is not a full currency hedge, since investors are only paid in pesos. Were the peso to be made inconvertible, investors would not be able to buy dollars at the official exchange rate. However, with the offshore derivative business growing by leaps and bounds, last year the Mexican government decided to stem the tide, and expand the home-based derivative market. The Mexican Securities and Exchange Commission allowed the stock market to offer listed warrants on blue-chip Mexican stocks. The warrants started trading in October, and average volume has been modest, at about $1m a day.

So far the warrant market has suffered from over-regulation, lack of liquidity, and foreigners have preferred to keep on buying OTC offshore. It can take several months to obtain permission to issue a warrant, a privilege only granted to Mexican brokerages, which limits the overall liquidity of the market. Mutual funds are still awaiting permission to buy the warrants.

Mexican brokerages are also unwilling to trade or comment on warrants issued by their rivals. This has further prevented the market from reaching a critical mass.

While the government's conservative attitude has been criticised by banks keen to compete with the US in derivatives, it has won support outside broker circles. "There is a virtue in being cautious. It is much worse to go when you are not ready, than to wait too long," says Catherine Mansell, an academic and author of the best-selling *The new finance in Mexico.*

Next year the Mexican authorities plan to open listed options market in Mexico for equities. Some time after that, the stock market may offer listed options on the peso, and interest rates, and future contracts on baskets of stocks. No decision has yet been made about when to offer such products.

The success of such markets depends on liquidity, how the clearing system is arranged, and restrictions on market makers, says Juan Jose Suarez, co-head of derivative products at Banamex, Mexico's largest bank. But if regulation is flexible enough, Mr Suarez expects considerable interest. "It's difficult to imagine the sort of volume traded on the Telmex option, but there should be significant interest" he says.

Participants stress the synergy between different derivative markets, suggesting that derivative instruments will take off when all are available, and trading is liquid. "It would be very helpful [for Mexican derivatives] to develop a liquid and efficient futures market" says Trey Rhine, a vice-president at Merrill Lynch, the market leader in Mexican derivatives. A futures market would stimulate liquidity in the underlying market and other derivatives, and help investors arbitrage price differences between assets that offer the same return, ensuring a more efficient market.

The market in tailor-made derivatives on blue-chip Mexican equities, debt instruments or the peso is thriving

Many foreigners will still prefer to trade outside Mexico, if only because there are more comfortable dealing in dollar-denominated options, and in their own time zone, says Jeremy Campbell-Lamerton, managing director of the London branch of Inverlat. Since the price of an option includes the implicit interest rates during the option's life span, investors will find it cheaper to buy a *dollar option* than a peso option, if, as is now the case, expected peso devaluation does not offset the peso/dollar interest rate differential.

So far the signs from the authorities regarding regulation have been conflicting. On the one hand, Mexico's finance ministry is itself one of the world's largest users of options and futures, hedging against rises in US interest rates and falls in oil prices. It presumably would want to encourage the development of a domestic derivatives market to allow Mexican companies and investors to follow a similarly prudent financial strategy.

In a possible sign of greater flexibility, the Securities and Exchange Commission finally gave Banamex permission to sell in Mexico an equity-linked note, which gives investors 70 per cent of the upside of the stock market, and protects the principal. Previously such equity-derivative offerings, done by Banamex or US houses such as Merrill Lynch, have had to be offered offshore in Luxembourg.

However, the Central Bank remains worried about financial institutions' ability to manage the risks involved with derivatives. This was highlighted by last year's fiasco over *ajustabonos* (bonds that offer a real interest rate, that are, in effect, a play on future inflation rates) in which Mexican brokerages and banks lost at the very minimum hundreds of millions of dollars.

But just as Mexico found in the early 1980s that it was impossible to prevent capital outflows even with capital controls, Mexico is finding that one way or another the derivative business has arrived. The question is whether it will continue to flourish outside Mexico, or whether it will be brought onshore.

Damian Fraser

EMERGING MARKETS

Limited scope for development

THE USE of derivatives for risk management purposes may seem pretty old hat to the blue chip companies of the world's more developed countries, but for companies in some of the emerging economies it is a skill still largely in its infancy.

That is not for want of sufficiently volatile conditions. Companies in developing countries are just as exposed as their western rivals – if not more so – to the vicissitudes of modern life. As companies turn away from their domestic markets and grow increasingly international, they often face the problems of fluctuations in exchange rates, interest rates and commodity prices.

A company in the developing world which borrows cheaply in dollars to finance the construction of a new factory, for example, might suddenly find itself paying more than it had bargained for if the domestic currency suffers a sharp devaluation. Given the increasing integration of world markets, fluctuations in the developed world are rapidly transmitted to the developing economies.

Added to these external factors, some developing countries (for example Brazil) suffer from very high inflation. Under such circumstances, companies are often forced to consider a much shorter time-frame, focusing on daily or monthly financial management rather than looking much further ahead.

"High inflation typically reduces the maturity range of available financial instruments, which limits the ability of firms to deal with currency (or interest rate) exposures beyond a short horizon," says Mr Jack Glen, an economist at the International Finance Corporation (IFC) in his recent report on risk management in developing countries*.

For example, in Brazil (where the domestic capital markets are very sophisticated, offering a broad range of different instruments for managing a variety of risks) the very high inflation rate and economic uncertainty "prevents the development of medium and long-term risk management instruments", according to Mr Glen.

For the normal range of interest rate and foreign exchange risks encountered by companies in developing countries, however, it is possible to use some of the risk management techniques and instruments which have already been developed and put to use in the world's more sophisticated financial centres.

So far, the extent to which these risk management methods have been employed in the emerging markets is quite limited. As Ms Elizabeth Morrissey, managing partner of Kleiman International Consultants, the US-based consultancy which monitors emerging markets, points out: "Some of these countries barely have domestic bond markets, let alone their own derivatives markets."

Instead, companies in developing economies would tend to turn to US banks or the International Finance Corporation (IFC), the private sector arm of the World Bank, for assistance in managing their foreign exchange or interest rate exposure. "We are seeing the increasing use of risk management instruments but it still tends to be done on a 'deal by deal' basis," says Ms Morrissey.

"Derivatives grew in the developed world so it's only natural they should percolate to less sophisticated financial centres," says Mr Mark Coombs, an emerging market specialist at ANZ Grindlays Bank.

He points out that the use of derivatives in the emerging markets is becoming more prevalent, with an increasing emphasis on structured deals which are tailored to the needs of the individual company. "The use of derivatives is growing across the board in the emerging markets: what you tend to see is either investor-driven deals, where the investor wants to enhance his return through leveraging, or borrower-driven deals where the borrower is trying to hedge a risk," says Mr Coombs.

Companies in developing countries are just as exposed as their rivals in the west – if not not more so – to the vicissitudes of modern life

The IFC has assisted companies from a wide variety of developing countries – ranging from Bolivia to Ghana – to set up currency and interest rate swaps to manage their exposure.

To take one example, an Egyptian manufacturing concern which had secured low-cost yen financing to purchase Japanese equipment, suddenly found itself a victim of the appreciating yen. The company had mainly dollar revenues, so the yen's appreciation in the latter half of the 1980s meant that its financing costs soared. Each one yen decrease in the yen/dollar exchange rate cost the company an additional $300,000 annually in interest expenses.

The IFC points out that for nearly three years the company was forced to accept the mismatch (of yen interest expenses and dollar revenues) because the international swap markets were effectively closed to them. Eventually, with the help of the IFC, the company entered into a currency swap that exchanged a portion of its yen financing for dollar financing.

While the IFC was able to help in this instance, in many cases, companies in developing countries are denied the sort of access to risk management tools that western companies enjoy and employ.

Mr Glen highlights several reasons why the use of risk management instruments may be restricted or limited, including credit considerations, regulation and the size of the transactions.

"The derivatives products markets are credit sensitive and as most long-term derivative securities involve credit risk, direct access generally is limited to companies having at least investment grade credit ratings," he says in his report.

Creditworthiness is a significant factor in pricing and access for swaps, making it difficult for developing country firms to have access to the international swap market.

Without a track record or a credit rating, companies may not have access to risk management instruments. In cases where they do have access, it may only be to short-term instruments, or the conditions may stipulate the company post collateral which could make the deal more expensive.

In some developing countries, domestic financial regulations which prevent the use of risk management instruments - sometimes because the authorities are concerned that the fine line between use for speculation and use for hedging purposes might be blurred. In some cases it may simply prove too costly to conduct the transaction, either because of the tax treatment or because of the rather small size of the deal itself.

Given these limitations, it could be some time before the use of derivatives is as widespread in the developing countries as in the western world.

Sara Webb

* *How Firms in Developing Countries Manage Risk, a discussion paper by Mr Jack Glen, published by the International Finance Corporation.*

Profile: SWISS BANK CORPORATION

A short cut to domination

SWISS BANK CORPORATION was not one of the first banks to enter the derivatives market. But in only a few years it has become one of the dominant forces in the market, with a derivatives capacity which covers the three main product lines of interest rates, foreign exchange and equities, and encompasses over-the-counter and exchange-traded business.

In a poll taken by Risk magazine in September, SBC was named as one of three market leaders in the derivatives industry (the other two are Bankers Trust and J P Morgan).

SBC took a short cut by buying a ready-made derivatives business, rather than trying to grow its own from a relatively small, in-house capability, or poaching teams from other firms. O'Connor Securities, a specialist options trading firm based in Chicago, possessed not only expertise but also the advanced technology required for such an operation.

The move was based on a strong strategic view taken at board level. In 1989, SBC set down a long-term strategy, dubbed "Vision 2000", which took the view that "the capital markets of the 90s would be driven by derivatives and risk management products," according to Mr Marcel Ospel, a member of the SBC executive board. "This led SBC to explore with O'Connor, already a leading player in US derivative markets, the form a joint venture might take to exploit the coming boom in derivatives business worldwide."

A joint venture formed by SBC and O'Connor in 1990 was followed by a full merger of the two businesses in 1992, when SBC bought O'Connor.

At the time of the joint venture, O'Connor was looking at three or four potential partners and SBC had been considering buying a US investment bank to get into the US market, particularly on the corporate finance side.

But these two rather unlikely bedfellows – a US proprietary trading firm and a Swiss bank – decided to brave the potential culture clash.

O'Connor was a "blue jeans and T-shirts firm with a flat level structure", said Ms Lesley Grant, a former O'Connor hand who now runs SBC's foreign exchange risk management advisory service worldwide.

It had a very special niche – statistical arbitrage – which involves investing heavily in systems to have better models and data which can identify anomalies in the market. In particular, the ability to forecast volatility accurately – a key element of pricing in the options market – was a strength of O'Connor.

O'Connor had been very successful first in trading options on the Chicago exchanges and then in the OTC market, but as the market became larger and more competitive its lack of a strong capital base became a restraint. A joint venture with First Chicago in foreign exchange options was dissolved due to lack of commitment on both sides.

At the same time, SBC had started a critical examination of its whole capital markets business in the wake of the 1987 crash – and had found a number of weak points.

One of these was options. "There was a clear gap that had to be filled," said Mr Simon Bunce, head of interest rate derivative sales.

While there were tales of ructions during the joint venture period, the seams between SBC and O'Connor are no longer obvious.

Staff say the success of the merger is due to the fact that it was driven by need on both sides, and there was little overlap. Although O'Connor staff were afraid of losing their special culture, the handling of the merger by senior staff on both sides helped. "Of the 21 partners at O'Connor, all became managing directors of SBC: no-one took early retirement and went to partner heaven," said Ms Grant.

SBC took the approach of integrating its newfound derivatives capacity with other areas of business – probably more fraught with difficulty in the short term, but more effective in the long term. To bring this about, there has been a huge investment in education

Lesley Grant: O'Connor was a blue jeans and T-shirts firm

"We pride ourselves on the quality of our derivatives education package which is run from Chicago and networked throughout the world," said Mr Bunce. Unlike many other banks, SBC staff are sent on two- to three-week courses, their mobile phones confiscated to sever contact.

The integration of cash and derivatives markets is most advanced in SBC's foreign exchange business, probably its strongest platform.

SBC has trained its 170-strong foreign exchange sales team to price and structure their own options so that they are now an integrated cash and derivatives sales team.

Other elements of the O'Connor legacy can be found in use of specialist analystic skills in areas such as risk management. Each book (foreign exchange, interest rate and equities) has a global risk manager, who measures the bank's exposure, and in each case that function is provided by a former O'Connor partner.

There are still some areas of weakness.

Although O'Connor brought equity derivatives expertise to the table, SBC's cash market business in equities has still not recovered from its disastrous "big bang" takeover of UK stockbroker Savory, Milln.

However, the bank now has a three-quarters formed traditional research and sales function with an industry thrust, in line with present trends.

"The O'Connor franchise in equity derivatives was already very strong," said Mr Steve Smith, head of equity derivative sales, and has allowed SBC to develop innovative retail products, such as guaranteed return instruments, high-yield unit trusts and warrant issues. One example is SBC's innovative bond issues with "knock-out" warrants for Benetton and Roche.

SBC also produced an options package to protect Hongkong Land against a rise in the share price of Trafalgar House, when it took a 20 per cent stake in the UK property company last year.

SBC's other main weakness is geographical. Unlike the US firms which are its principal competitors, it cannot claim to have a truly global reach. Its efforts to develop a strong base in the US are still at an early stage, and are hampered by its inability to merge operations because of the US Glass-Steagall law, which separates banking and securities business.

One of the stated aims of Vision 2000 was to be among the world's 10 most profitable banks. Profitable, for banks, increasingly means return on equity: SBC's return on equity is around 10 per cent, rather than the 20 per cent returns shown by many US investment banks, which do not have the overheads of a clearing bank business. However, the capital markets and treasury division of SBC already makes a return on equity of more than 20 per cent.

Its newfound derivatives strength has given the bank greater leverage across all its business areas. The last few years seem to have shown that the SBC planners got it right: derivatives have become the key strategic market in the 1990s and SBC is well positioned to take advantage of the growth of the market.

"You can develop so much when you have a machine that works," said Mr Bunce.

Tracy Corrigan

Profile: MCDONALD'S

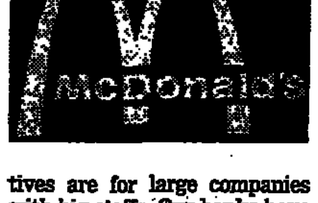
Cutting costs of hamburgers

THE world of derivatives, McDonald's Corporation is a typical user. It is a large company, which, because a lot of its earnings and borrowings emanate from overseas, faces currency and interest rate risks in many markets.

What makes McDonald's particularly interesting, however, is that there can be few companies where the benefits of derivatives are so clearly apparent – not just to the chief financial officer and corporate treasurer, but to the thousands of people across the world who run restaurants under the famous yellow arch. They, as much as anyone, have been able to enjoy the rewards of derivatives.

Mr Carleton D Pearl, McDonald's treasurer, explains how its franchisees are able to use derivative instruments to cut the cost of their borrowings. "There are programmes run by our banks that finance the franchisee, which include a cap in the cost of the loan. What is interesting about that is, if you're a small- or medium-sized business owner, and you're trying to put a cap on a prime rate loan in the US, you would have to figure out how many options you would need to buy on an exchange. Now, how could they possibly deal with that? What the banker can do, is make a loan at 150 basis points over commercial paper, or a loan at 175 over commercial paper, and promise you that you'll never have to pay more than 10 per cent."

In other words, says Mr Pearl, "derivatives can deliver value to small- and medium-sized businesses by enabling them to manage risks that they're not equipped to manage. Most people think deriva-



tives are for large companies with big staffs. Our banks have found a way to deliver these instruments so that the small business owner can use them."

Mr Pearl clearly likes to spread the derivatives gospel. He was one of the co-authors of the Group of Thirty's report into derivatives published this summer, a report that essentially gave the business a clean bill of health.

One point on which the G30 placed particular emphasis, was the notion of accountability – the need for the financial officers at companies who use derivatives to keep their senior managers and boards of directors fully informed, both of their activities and the extent of their company's exposures.

It is a message that Mr Pearl says McDonald's has always taken seriously. "We have extensive discussions with the board of directors about these instruments. It's been an ongoing dialogue. In the early days we reported on each transaction we did. To this day, every time they meet we give them a report on our derivatives portfolio marked to market. And for our own senior management, we prepare a report which looks at not only the exposure on a marked-to market basis, but which also provides an analysis of our potential exposures."

He has been McDonald's treasurer since 1988, but the company first began using the products in the early 1980s. Back then, it was a natural progression from the risk management techniques McDonald's was already using, says Mr Pearl.

"We started doing parallel loans in the early 80s, and the next step from parallel loans to swaps was relatively straightforward. If you have been doing three-month foreign exchange contracts, the move out to five-year forward contracts is one that carries somewhat of a different risk, but you're moving along a spectrum, and thus not doing something totally new."

Mr Pearl says the company embraced derivatives early on because they offered a better, and often cheaper, way to control risk, and since the early days it has not strayed that far from the plain vanilla derivatives products that hedge interest rate and currency risk. A look at its derivatives portfolio would show that the company is involved in almost 100 transactions, with 23 different counterparties in 12 currencies.

The chief motivation has always been saving money. "It's critical to understand this about what we do here – our job is to reduce all the costs as much as possible, so we can deliver the best value hamburger to our customers. Therefore, if we can reduce the cost of financings and land acquisitions and construction, we can lower the cost of selling hamburgers to our customers. That is our objective. We are not here to run another business trading derivatives."

The cost savings can come in a variety of ways, says Mr Pearl. "For example, if our cash flows and cash needs change, and our view of markets change, to go out and call a bond issue, or buy it in the market and reissue shorter-term or longer-term floating debt, can be a very expensive proposition. However, doing it through derivatives is very much easier and much less expensive."

Derivatives also provide the company with more flexibility in its financings. "We did a Danish krona financing – fixed rate krona with US dollar commercial paper. Therefore, we got Danish krona fixed-rate loans at 100 basis points below local financing sources. This, at a time when the local bond market did not do fixed rate financing." Mr Pearl also cites an example of how the company used equity options to reduce the cost of a $700m stock buy-back programme.

Occasionally, McDonald's employs more complex, hybrid forms of derivatives, such as a few years ago when they issued inverse floating rate bonds with coupons that, if interest rates went down, the rate went up. "We swapped those into commercial paper borrowings. It was pretty esoteric, but the essence of the deal was that we created financing below the cost of our commercial paper financing."

McDonald's does not use derivatives in a speculative fashion, to earn a profit from the products. "I've often been asked about whether we make money. Well, we don't keep track of it that way. We think of each financing, and ask: does it make economic sense relative to the alternatives?"

The number of staff working with derivatives at McDonald's is small. Mr Pearl has five with him – one director, two managers and two analysts – out of a total of 30.

It was different in the early 1980s, when derivatives were still new, and only a few corporations were using them. Mr Pearl can get nostalgic about the early days. "The economics used to be much better. We used to be able to do some swaps that got us 100 basis points below libor. Sadly, those days are gone forever."

Patrick Harverson

Profile: LONDON CLEARING HOUSE

Unsung hero is unique

TUCKED away in the back streets of the City of London is the unsung hero of the capital's rapidly-growing derivatives industry, the London Clearing House (LCH).

LCH, which was founded in 1888 to clear coffee and sugar trades, plays a pivotal role in ensuring the financial integrity and the efficiency of four of London's exchanges.

These are the International Petroleum Exchange (IPE), the London Commodity Exchange (LCE), the London International Financial Futures Exchange (Liffe) and the London Metal Exchange (LME).

LCH meets its two main priorities through its primary role as the central counterparty for trades executed on the four exchanges. Its ability to take on counterparty risk provides a solid trading framework for its 171 members because their counterparty risk is considerably reduced and market liquidity is enhanced.

In addition, LCH's unique position as the only futures clearing house in the world to clear several markets and different products through a centralised and automated system has allowed members to make considerable savings in their settlement costs.

"Members with positions on all four markets can cover all their liabilities with one single payment," says Mr David Hardy, LCH's managing director.

LCH controls the risk of being exposed to a potential default by a member in two ways, through counterparty assessment and margining.

Applicants for LCH membership are vetted thoroughly before they become members and LCH continuously reviews existing members to ensure they satisfy the following criteria:

- Relevant exchange membership;
- Relevant authorisation under the Financial Services Act of 1986;
- Banking arrangements for the immediate transfer of funds to LCH on demand;
- Adequate resources to comply with day-to-day requirements of LCH membership;
- Minimum financial resource requirements.

LCH monitors each member's risk exposure on all four exchanges and analyses it in relation to their ability to cover their liabilities.

If the LCH believes that a member's business is out of line with its resources – for example, it might have an unusually large position or a concentration of its margin in a single contract – it will ask the member to put up additional resources or ask it to restrict its business volume.

So far, LCH has managed to assess its counterparties with a high degree of accuracy and in its 105-year history it has only had to expel one member, a subsidiary of BCCI, in 1987.

The other way in which LCH dampens down its risk profile is by setting margins which

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Meaningful expressions

GIVEN the rapid growth in the derivatives industry and the increasingly exotic nature of the products which are being launched, it is hardly surprising that newcomers to the industry are confused or misled by the terminology. In addition, the vast difference between the perceived meaning and the actual meaning of many of the terms poses serious problems for the industry's regulators, lawyers and insurers.

In a recent paper, Mr Graham Cox, group economist at the Sun Life Assurance Society, points out that very often the perceived meaning of a "hedge fund" is a fund with all risk eliminated by the use of hedging postions, whereas the actual meaning is a portfolio of leveraged positions, normally including derivatives.

Mr Cox notes that there have been attempts in the past to sort out more effective and less misleading names for the various functions and products in the derivatives industry, but with little success so far.

However, there are numerous dictionaries which give lucid explanations of the jargon and many banks and securities houses which trade in derivatives have published useful information packs detailing how the more complicated products work.

Financial Times writers **Antonia Sharpe** and **Laurie Morse** draw on the large mass of literature to compile a glossary of words and terms used in the derivatives industry

Asset allocation: dividing investment funds among markets to achieve diversification or maximum return.

As-you-like option (or **chooser option** or the **call-or-put option**) enables the holder to convert from one style of option to a different style of option over a preset period of time.

Average rate option (or **Asian option**): an option in which the settlement is based on the difference between the given strike and the average prices of the underlying stock or index on selected dates.

Barrier options: a family of path-dependent options whose pay-off pattern and survival to the expiration date depend not only on the final price of the underlying security but also on whether or not the underlying security sells at or goes through a pre-determined barrier at any time during the life of the option.

Various Barrier options include:

Down-and-out call/put: an option which expires worthless if the market price of the underlying security drops below a pre-determined price.

Down-and-in call/put: an option which becomes effective if the market price of the underlying security drops below a pre-determined price.

Up-and-out call/put: an option that expires worthless if the market price of the underlying security rises above a pre-determined price.

Up-and-in call/put: an option that becomes effective if the market price of the underlying security rises above a predetermined price.

Best-of-two option (or **either-or option** or **alternative option**): provides the option holder with a payoff based on the independent performances of two separate and distinct securities or indices.

Box options: a tax efficient method of using cash to generate capital gains, while maintaining a conservative investment approach to funds management. Instead of placing cash in a money market instrument and generating interest income, equity options are purchased the payoffs of which create capital gains that can be offset against current capital losses.

Call option: the right to buy a given stock, commodity, index, or futures contract at a fixed price on or before a specified date.

Cap: contract between a borrower and a lender where the borrower is assured that he will not have to pay more than some maximum interest rate on borrowed funds.

Clearing house: an affiliate of a futures or options exchange which matches and guarantees trades and holds performance bonds posted by dealers. Acts as a counterparty to every trade, reducing credit risk.

Collar: a floating rate debt contract that establishes both a maximum and minimum interest rate to be paid by the borrower.

Commodity Swap: a swap in which counterparties exchange cash flows based on a commodity price on at least one side of the transaction.

Compound option: an option on an option. The holder has the right to purchase another option on a pre-set date, at a pre-set premium.

Contango: a condition in a futures market where the more distant delivery months trade at a premium to the near term delivery months.

Covered call: one of the most popular option strategies, using an existing equity position. Calls are sold on the underlying security with strikes which are higher than the market price. The strike price chosen limits the profit a security holder can realise from the position and this strategy is best used when the holder is fairly certain that there will be little movement in the security's share price.

Currency swap: an exchange of equal initial principal amounts of two currencies at the spot exchange rate. Over the term of the agreement, the counterparties exchange fixed or floating rate interest payments in their swapped currencies. At maturity, the principal amount is reswapped at a predetermined exchange rate so the parties endup with their original currencies.

Deferred strike or deferred start option (or forward start option): allows the holder to defer the setting of the strike price until some future time, up to an agreed deadline.

Derivative: a contract the value of which changes in concert with the price movements in a related or underlying commodity or financial instrument. The term covers standardised, exchange-traded futures and options, as well as over-the-counter swaps, options, and other customised instruments.

Equity swap: a contract between two counterparties to exchange two different cashflows over time. Over the life of the swap one party agrees to pay the rate of return on an equity or the equity index while the other party agrees to pay a floating or fixed rate of interest.

Exploding option **(or one-touch option):** a European-style call spread with an early exercise price trigger.

Floor: an aspect of a floating rate debt contract that specifies a minimum interest rate for a borrower.

Forward: an over-the-counter agreement for a buyer and seller to exchange a particular good for a particular price at a specified future date.

Futures contract: an agreement between a buyer and seller to exchange a particular good for a particular price at a future date as specified in a contract common to all participants in a market on an organised futures exchange. Collateral must be posted for performance bonds, and positions are marked to market at least once a day.

Hedge: a transaction that reduces risk of an underlying security or commodity position by making the appropriate offsetting derivative transaction. Usually limits potential reward of the underlying position.

Hybrid security: a complex security consisting of virtually any combination of two or more risk management building blocks – bond or note, forward, future, or option.

Interest-rate swap: the exchange between counterparties of fixed-rate and floating-rate debt in a single currency.

Ladder option (or step-Lock option): provides the holder with a mechanism of locking in gains on an underlying security during the life of the option, before its expiry.

Lookback option: an option the payout of which is calculated using the highest intrinsic value of the underlying security or index over the life of the option. In the case of a Lookback call, the highest market price is used whereas for a Lookback put,the lowest market price is used.

Outperformance option: a call option which allows an investor to capitalise on diverging performances of two underlying securities, which can be individual stocks, customised baskets of stocks or a specific index.

Put option: the right to sell a particular stock, bond, commodity or index at a specified future date at a specified price.

Quanto option (or guaranteed exchange rate option or currency protected option): an option in which foreign exchange risks in an underlying security have been eliminated.

Risk reversal: this strategy combines the purchase of a put option with the sale of a call option. The put option preserves the capital value of the shareholding while the sale of a call option reduces or eliminates the cost of this insurance, at the expense of giving up some of the upside potential of the stock.

Swap: a contract to exchange a stream of periodic payments with a counterparty. Swaps are available in and between all active financial markets.

Swaption: an option to enter into a swap contract.

Texas hedge: a transaction that increases risk; two or more related positions whose risk is additive, rather than offsetting.

Warrant: an option to purchase or sell an underlying instrument at a given price and time or series of prices and times. A warrant differs from a put or call option in that its is ordinarily issued for longer than a year.

Sources: Dictionary of financial risk management, by Gary Gastineau; Option volatility and pricing strategies, by Sheldon Natenberg; Equity derivatives glossary published by Swiss Bank Corporation

Unsung hero is unique

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are calculated daily and which members have to cover daily with a deposit of funds or with collateral.

Margin, which is a measure of the risk of a member's positions, has two main components: initial margin to provide cover for potential adverse movements and variation margin to cover previous price movements.

Mr Hardy says that margins are essential so that markets can be seen to be able to trade in times of extreme price volatility but at the same time provide protection for members by not allowing their liabilities and resources to get out of balance.

For example, during the Gulf War, margin rates were increased substantially to reflect the big swings in the price of gas oil futures. LCH asked members to improve their resources by way of bank guarantees. When prices stabilised the bank guarantees were returned to the members.

"Margining can be seen as the barometer of the volatility in the market and it serves to neutralise the risk," says Mr Hardy.

He adds that LCH and its members are given additional protection by the diverse nature of the markets and the products cleared by LCH.

"The risks will be different at any one time," he says, noting that during the stock market crashes of 1987 and 1989 there was hardy any reaction on the other exchanges.

LCH regularly holds more than £1bn in cash in margin money which it invests in overnight money markets. It pays members interest on their margins – usually the bid rate on the London interbank rate (Libor) minus ¼ – and very often members leave more money than they have to with LCH because of the favourable interest rate.

David Hardy: one payment covers all liabilities of a member

Surplus interest income on the margins forms part of LCH's income. As well as keeping transaction costs down, the interest income helps LCH achieve its third priority, that is, making a sensible profit for its owners.

LCH is owned by six leading UK clearing banks: Barclays Bank, Lloyds Bank, Midland Bank, National Westminster Bank, the Royal Bank of Scotland and Standard Chartered Bank. These six banks provide the backing for LCH's counterparty risk, which amounts to £150m.

Mr Hardy is confident that LCH's structure will enable it to continue to clear the ever-increasing trading volumes generated by London's growing derivatives industry.

By October 7, LCH had cleared 112.5m contracts, exceeding the total number of trades cleared during the whole of last year. Total volume for this year is expected to reach 155m contracts.

LCH has also taken steps to ensure that it can continue to provide an uninterrupted clearing service for the exchanges if its systems fail or if its building is out of action.

All its computers are now located in south London and there is a back-up system in west London where it also has office space.

"LCH has a triangulated provision of service," says Mr Hardy.

Antonia Sharpe